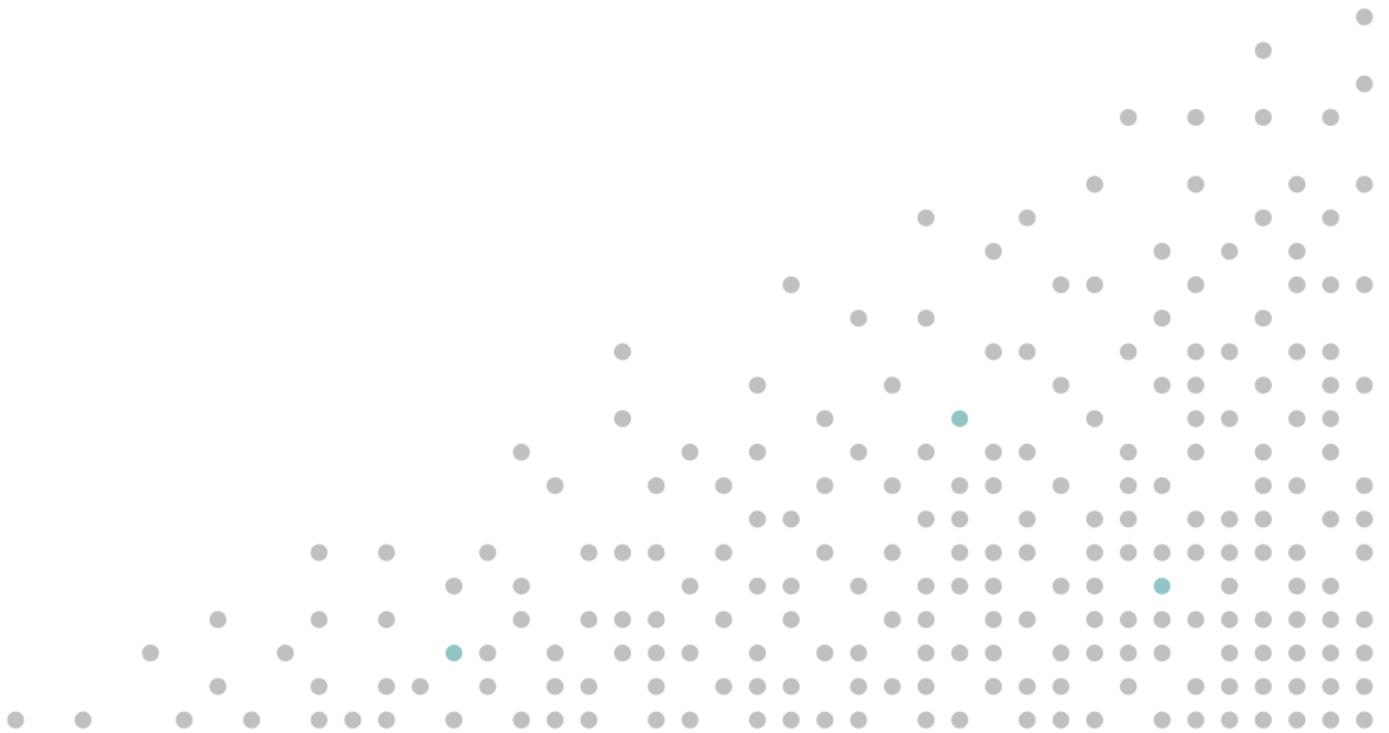




**Australian Government**  
**Department of Finance**



# **A guide for non-corporate Commonwealth entities on the role of audit committees**

March 2020

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# Acknowledgment

This guide was written and developed in consultation with the Australian National Audit Office (ANAO) and draws on information from the *ANAO Better Practice Guide Public Sector Audit Committees: Independent assurance and advice for Accountable Authorities* published in March 2015, ANAO Report no. 58 2016–17: *Implementation of the Annual Performance Statements Requirements 2015–16*, and ANAO Report no. 33 2017-18: *Implementation of the Annual Performance Statements Requirements 2016–17*.

# Audience

This guide is relevant to non-corporate Commonwealth entities (NCEs).

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

# Introduction

Audit committees play an important role in supporting the governance of NCEs, providing independent advice to accountable authorities, assisting them to meet their duties and obligations and supporting the development of key practice and capacity within NCEs.

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 NCEs, with a new focus on non-financial performance reporting. Previously, under the *Financial Management and Accountability Act 1997* (FMA Act)<sup>1</sup>, chief executives of agencies<sup>2</sup> were held accountable for the use and management of resources primarily through the publication of annual reports including the annual financial statements required under the FMA Act. Under the PGPA Act, accountable authorities are also required to produce and include new statements on non-financial performance (Annual Performance Statement) as part of their annual reports. This reflects the emphasis that the PGPA Act, as distinct from the FMA Act, places upon recording, measuring, assessing and reporting on entity performance by the accountable authority.

This broadening of reporting requirements presents new challenges for accountable authorities and their audit committees. In addition to their more traditional roles, the functions of an audit committee under the PGPA Act include reviewing the appropriateness of the accountable authority's performance reporting for the entity (section 17 of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule)). In order to assist accountable authorities to meet their performance reporting obligations, audit committees need appropriate qualifications, knowledge, skills and experience. Providing useful and relevant advice on non-financial performance reporting requires an audit committee to have a good understanding of the entity's unique operating environment and the risks faced by the entity.

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<sup>1</sup> The *Financial Management and Accountability Act 1997* (FMA Act) was replaced by the PGPA Act from 1 July 2014. The FMA Act provided the key legislative foundation for the financial management of agencies subject to the FMA Act. Most agencies subject to the FMA Act were classified as NCEs under the PGPA Act from the commencement of that Act.

<sup>2</sup> The commencement of the PGPA Act saw the title of 'chief executive' of the FMA agency replaced with the title 'accountable authority' of the NCE subject to the PGPA Act.

An audit committee has no managerial responsibilities. It does not make decisions in relation to the entity's processes and functions. It is intended to provide independent advice to the accountable authority. This advice may be used by an accountable authority in discharging their duties and obligations. Importantly, this advice is one of the key sources of information available to an accountable authority to consider when preparing formal statements to their responsible Minister and the Parliament about the information contained in annual financial statements (with reference to sections 41 and 42 of the PGPA Act) and annual performance statements (with reference to section 39 of the PGPA Act).

Four years after 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.<sup>3</sup>

In 2017, the Independent Review into the operation of the PGPA Act and Rule 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, and other guidance issued by the Department of Finance (such as the [\*Commonwealth Performance Framework\*](#)), helps 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. [Appendix A](#) provides examples of matters that the committee could consider in reviewing the appropriateness of the matters listed in section 17 of the PGPA Rule. It includes a skills matrix ([Appendix B](#)) that 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. It includes matters that the accountable authority could consider when determining the audit committee's functions, structure and conduct to maximise its value to the accountable authority. As such, this guide can be used as a model for the accountable authority to follow when developing its own audit committee charter.

This guide replaces:

- Resource Management Guide No. 202: A guide for non-corporate Commonwealth entities on the role of audit committees, published in May 2018
- Resource Management Guide No. 202: Audit committees for Commonwealth entities and Commonwealth companies
- Information sheet for Commonwealth entities on audit committees and performance reporting.

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<sup>3</sup> See JCPAA Report 469, *Commonwealth Performance Framework*.

## 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 A – Annual report for non-corporate Commonwealth entities**

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

#### **17AG Information on management and accountability**

[subsection (2A) applies in relation to an annual report for a reporting period that begins on or after 1 July 2019]

##### *Audit committee*

- (2A) The annual report must include the following:
- (a) a direct electronic address of the charter determining the functions of the audit committee for the entity;
  - (b) the name of each member of the audit committee during the period;
  - (c) the qualifications, knowledge, skills or experience of those members;
  - (d) information about each of those members' attendance at meetings of the audit committee during the period;
  - (e) 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'<sup>4</sup>.

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<sup>4</sup> Macquarie Australia's National Dictionary, Concise Dictionary, Third Edition, *definition of 'appropriateness'*, p. 47.

## 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 non-corporate Commonwealth entity's audit committee charter must be publically available through its annual report (PGPA Rule s.17AG(2A)).

The charter is the accountable authority's blueprint for the audit committee's operations.

The charter must determine the functions of the audit committee for the entity. 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 accountable authority 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 accountable authority, allowing for its entity's objectives and culture, and the context in which it operates.<sup>5</sup>

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

- audit committee's functions and responsibilities, including any functions the accountable authority may want to add in addition to the legislative functions under the PGPA Rule
- audit committee's anticipated deliverables, with the content and level of detail expected in the advice the committee provides
- 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
- the period for which audit committee members will be appointed, allowing for short-term membership
- a requirement for access to all information necessary to enable the audit committee to effectively advise the accountable authority on its (the committee's) functions
- the entity's specific operating context, which the audit committee must take into account when performing its functions
- how the performance of the audit committee will be assessed.<sup>6</sup>

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<sup>5</sup> Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3<sup>rd</sup> edition, p. 49.

<sup>6</sup> Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3<sup>rd</sup> edition, p. 50.

The charter should be updated as needed to reflect changes to the entity's operating context, new circumstances and the accountable authority's changing needs. It is a good practice<sup>7</sup> to review the charter annually, to align it with the current risks, challenges and opportunities the entity faces.

## 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<sup>8</sup> of the accountable authority's financial and performance reporting, and the systems of risk oversight and management and internal control, for the entity. Advice from the audit committee assists the accountable authority to meet its broader duties and responsibilities under the PGPA Act.

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

In its independent capacity, skills and experience, and with sound knowledge of the entity's operating context, 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.

In carrying out this review the audit committee supports the accountable authority in discharging their duties and responsibilities under the PGPA Act in relation to the accounts, records and financial reporting of the entity.

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

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<sup>7</sup> Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3<sup>rd</sup> edition, p. 50.

<sup>8</sup> 'Appropriateness' has its ordinary meaning: suitable or fitting for a particular purpose.

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))
- ensure that the accounts and records are kept in a way that complies with any requirements prescribed by the rules, enables 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 (subsections 10(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](#).<sup>9</sup>

### 1.1.2 Role and functions of the audit committee

Subsection 17(2) (a) of the PGPA Rule requires an audit committee to review the appropriateness of the accountable authority's financial reporting for the entity.

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

- review the entity's processes and systems for preparing financial reporting information

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<sup>9</sup> <https://www.finance.gov.au/government/financial-reporting-accounting-policy>

- 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 should specify the content and level of detail expected in a written advice by the audit committee to the accountable authority about the appropriateness of the accountable authority'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), the advice to the accountable authority from its audit committee should be documented in the form of a written statement of its view of the appropriateness of the accountable authority's financial reporting.

The audit committee should communicate their view to the accountable authority and not merely state that it does not know of anything that would indicate the accountable authority's financial reporting for the entity is not appropriate. The statement adds value by providing comfort to the accountable authority that their financial reporting is appropriate, and by providing references and suggestions for systems and process improvement.

Through the audit committee charter, for example, an accountable authority could require of the committee the following:

- a statement to the accountable authority 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 accountable authority 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 Commonwealth entities; this includes the preparation of annual performance statements. Audit committees can support accountable authorities by providing independent advice to the accountable authority through reviewing the appropriateness of the accountable authority's performance reporting. An understanding of the accountable authority's performance reporting duties and obligations is essential if an audit committee is to perform this function effectively.

In carrying out this review the audit committee supports the accountable authority in discharging their duties and responsibilities under the PGPA Act in relation to the performance reporting of the entity.

### 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 an explanation of how the entity will achieve its purposes and 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*<sup>10</sup> (PBS) sets out what an entity must do in respect to the provision of performance information in the PBS.

<sup>10</sup> <https://www.finance.gov.au/sites/default/files/2019-11/untitled.pdf>

## 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.

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 131A – Developing Performance Measures<sup>11</sup> 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:

	<b>Requirements for performance measures</b>	<b>Description</b>
(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.

<sup>11</sup> <https://www.finance.gov.au/government/resource-management/list-az>

Resource Management Guide 131A, along with ANAO reports on the implementation of annual performance statement requirements<sup>12</sup>, 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 on 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
- review the annual performance statements and provide advice to the accountable authority 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 accountable authority from the audit committee should be documented<sup>13</sup> in the form of a written statement of its view on the appropriateness of the accountable authority's performance reporting. An audit committee's charter should specify the content and level of detail expected in a written advice.

The audit committee should communicate their view to the accountable authority and not merely state that it does not know of anything that would indicate the accountable authority's performance reporting for the entity is not appropriate. The statement adds value by providing comfort to the accountable authority that their performance reporting is appropriate, and by providing references and suggestions for systems and process improvement.

For example, through the audit committee charter, an accountable authority 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, compliance with the PGPA Act and Rule, with reference to any specific suggestions for improvement or areas of concern.

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<sup>12</sup> ANAO, Report no. 58 2016–17, *Implementation of the Annual Performance Statements Requirements 2015–16* and ANAO, Report no. 33 2017–18, *Implementation of the Annual Performance Statements Requirements 2016–17*.

<sup>13</sup> ANAO, Report no. 58 2016–17, *Implementation of the Annual Performance Statements Requirements 2015–16*.

## 1.3 System of risk oversight and management review

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. To promote a coherent approach to discharging this duty and to help entities understand the requirements for managing risk, in 2014 the Australian Government released [\*the Commonwealth Risk Management Policy\*](#).

In carrying out this review, the audit committee supports the accountable authority in discharging their duties and responsibilities under the PGPA Act in relation to the system of risk oversight and management of the entity.

### 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)). Accountable authorities of non-corporate Commonwealth entities must comply with the Commonwealth Risk Management Policy.

The goal of the Commonwealth Risk Management Policy is to embed risk management as part of the culture of Commonwealth entities such that a shared understanding of risk leads to well-informed decision-making.

The policy's requirements are organised into nine policy elements (see Figure 3). Further guidance on the policy is available on the [\*Finance website\*](#).<sup>14</sup>

**Figure 3 Elements of the Commonwealth Risk Management Policy**



<sup>14</sup> [https://www.finance.gov.au/sites/default/files/2019-11/commonwealth-risk-management-policy\\_0.pdf](https://www.finance.gov.au/sites/default/files/2019-11/commonwealth-risk-management-policy_0.pdf).

For further information on an accountable authority's system of risk oversight and management see the [Finance website](#).<sup>15</sup>

### 1.3.2 Role and functions of the audit committee

The audit committee supports the accountable authority in relation to risk management 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 could be informed by the entity's purposes and specific operating context. For example, the audit committee of an entity managing large grants programs may focus on risks associated with the implementation and delivery of grants.

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 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](#)
- 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 [fraud control framework](#)<sup>16</sup>, 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 accountable authority's system of risk oversight and management. This advice should be documented. The audit committee should communicate their view to the accountable authority, not merely state that it does not know of anything that would indicate the accountable authority's system of risk oversight and management is not appropriate for the entity. The statement adds value by providing comfort to the accountable authority that their risk system is appropriate, and by providing references and suggestions for systems and process improvement.

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<sup>15</sup> <https://www.finance.gov.au/government/comcover/risk-services/management>.

<sup>16</sup> <https://www.ag.gov.au/Integrity/counter-fraud/fraud-australia/Pages/fraud-frameworks-legislation-policies.aspx>

For example, through the audit committee charter an accountable authority could require:

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

## 1.4 System of internal control review

Audit committees assist accountable authorities by reviewing the appropriateness of the accountable authority's system of internal control and providing independent advice to the accountable authority. An understanding of the entity's internal control framework and operating context and the accountable authority's risk appetite is necessary if an audit committee is to perform this function effectively.

In carrying out this review the audit committee supports the accountable authority in discharging their duties and responsibilities under the PGPA Act in relation to the system of internal control of the entity.

### 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:

- any enabling legislation
- employment legislation—including the *Public Service Act 1999* 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](#).<sup>17</sup>

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

- govern the entity in a way that promotes the proper use and management of public resources (subsection 15(a))

<sup>17</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/managing-risk-internal-accountability>.

- 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)).

The accountable authority of a non-corporate Commonwealth entity can delegate to officials certain powers and functions described in the PGPA Act or Rule. For example, it can delegate the power to commit relevant money (section 110 of the PGPA Act). If a non-corporate Commonwealth entity is subject to enabling legislation, the accountable authority might also be able to delegate or authorise officials to exercise functions and powers under that legislation.

## 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)).

The accountable authority can expect that the audit committee take a risk-based approach<sup>18</sup> to reviewing the appropriateness of the accountable authority'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 control could be informed by the entity's purposes and specific operating context. For example, the audit committee of an entity that mainly processes payments may focus on the integrity of the processes for managing those transactions, while the audit committee of an entity that maintains personal information may focus on internal control around protection of that information.

Internal audit can actively assist the audit committee in the periodic reviews of entity's internal control 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

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<sup>18</sup> The frequency of review, and areas of the system of internal control to be reviewed, will be guided by the accountable authority's requirements, appetite for risk and the entity's operating context.

- 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\*](#)<sup>19</sup>.
- 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.

### 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 accountable authority’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 accountable authority’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 communicate their view to the accountable authority, not merely state that it does not know of anything that would indicate the accountable authority’s system of internal control is not appropriate for the entity. The statement adds value by providing comfort to the accountable authority that their internal control system is appropriate, and by providing references and suggestions for systems and process improvement.

The accountable authority’s audit committee charter could require

- a statement to the accountable authority 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.

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<sup>19</sup> [www.protectivesecurity.gov.au](http://www.protectivesecurity.gov.au).

## 1.5 Additional functions of the audit committee

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

For example, the accountable authorities 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 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
  - satisfying 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
  - 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

In keeping with the requirements of the PGPA Rule, 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 accountable authority.

### 2.1 Committee independence

A distinguishing feature of an audit committee is its independence from the executive management of an entity.

Independence from the day-to-day activities of management is critical to the contribution the audit committee can make to good governance in an entity. The audit committee needs to act in an objective, impartial manner, free from any actual or perceived conflict of interest.

From 1<sup>st</sup> July 2021 the PGPA Rule requires that all of the members of the audit committee are not officials of the entity, and a majority of the members be persons who are not officials of any Commonwealth entity.

These members bring a range of skills and experience from inside and outside the public sector. Given the variety of non-corporate Commonwealth entities and their purposes, diverse sources of audit committee members are required if the committees are to operate effectively.

To assist accountable authorities, a list of professional peak bodies is available on the [Department of Finance's website](#)<sup>20</sup> that could be of use when accountable authorities are seeking suitable external candidates for membership of audit committees for non-corporate Commonwealth entities. The list is not exhaustive and there is no requirement to use it.

## 2.4 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 accountable authority should consider audit committee candidates who have the capacity to understand the business and operating context of the entity.

Both the JCPAA<sup>21</sup> and the ANAO<sup>22</sup> 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 need to possess relevant technical skills, appropriate policy and subject matter knowledge, and a strong understanding of the entity's operating context.

When appointing members to the audit committee, the accountable authority should ensure that the collective skills and experience of committee members are suitable in the particular operating context of the entity, for advising on the matters required by section 17 of the PGPA Rule.

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. Engagement of external consultants must be authorised by the accountable authority and must comply with the Commonwealth Procurement Rules.

The skills matrix at [Appendix B](#) might be of use when accountable authorities are reviewing the skills and experience required by audit committee members.

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<sup>20</sup> <https://www.finance.gov.au/government/managing-commonwealth-resources/managing-risk-internal-accountability/duties/risk-internal-controls/audit-committees>.

<sup>21</sup> JCPAA, Report 463, *Commonwealth Financial Statements*, p. 44.

<sup>22</sup> Ms Mellor, ANAO, *Committee Hansard*, 22 March 2017, p. 5.

## 2.5 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 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

## 2.6 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 frequency of rotation of committee members needs 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 the other audit committee members. The accountable authority may choose to adopt a phased approach to the rotation of members to preserve an appropriate level of knowledge and experience on the committee.

The PGPA Act does not mandate minimum and maximum periods of appointment for audit committee members, and the optimum length of time a particular member serves on an audit committee will depend on the circumstances.<sup>23</sup>

## 2.7 Members of multiple committees

Audit committee members need to develop and maintain a good understanding of the entity's functions, objectives and operational context. Such knowledge is crucial if committee members are to contribute effectively to the delivery of the committee's functions under the PGPA Act.

The ANAO<sup>24</sup> and the JCPAA<sup>25</sup> have noted the issue of external members holding multiple audit committee roles. An audit committee's effectiveness can be enhanced by having members with experience on other public or private sector audit committees and with networks to other 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, 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.

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<sup>23</sup> Other jurisdictions do mandate members' terms. For example, in New South Wales the total term a member serves on an audit and risk committee cannot exceed eight years and the term as the chair cannot exceed five years. See TPP15-03 Internal Audit and Risk Management Policy for the NSW Public Sector.

<sup>24</sup> ANAO Report no. 33, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*, p. 33.

<sup>25</sup> JCPAA Report 463, *Commonwealth Financial Statements*, p. 44.

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.<sup>26</sup>

## 2.8 The committee chair

It is better practice<sup>27</sup> that the accountable authority 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 accountable authority might consider the personal attributes necessary for managing the overall effectiveness of the committee.

Part of the chair's role would be maintaining effective relationships with the accountable authority, senior management and other committee members and stakeholders, including the ANAO. The chair would be expected to lead committee discussions and to manage meetings in an efficient and effective manner.

Typically, the chair would be expected to:

- have the active support of and engage effectively with the accountable authority
- have a strong understanding of the nature of the entity and its work
- effectively plan and manage committee meetings, enabling the committee to perform its functions and meet its responsibilities as outlined in the committee charter
- maintain an open and constructive relationship with senior management, internal audit, other entity committees and the ANAO
- have a clear understanding of the functions and responsibilities of the audit committee and its position in the entity's governance structure
- arrange for all committee members to maintain up-to-date knowledge of the entity and its activities
- be a good communicator who facilitates discussion and focuses on matters of relevance and importance
- devote sufficient time to preparing for committee meetings and to engaging with the accountable authority, senior management and other stakeholders outside committee meetings.

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<sup>26</sup> 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.

<sup>27</sup> Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3<sup>rd</sup> edition, p. 55.

## 2.9 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 benefit from sharing an audit committee with other entities operating in a similar context. This could be within the same portfolio or across different portfolios where entities are performing similar functions (such as delivering regulatory functions). A sharing arrangement can leverage the skills and experience of the audit committee to advise effectively the multiple accountable authorities. 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

## Part 3 Conduct of the audit committee

In addition to detailing the membership and functions of the audit committee, the accountable authority's charter for the audit committee should 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.

### 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 accountable authority may wish to consider:

- requirements relating to how audit committee members will engage with management, other officials of the entity and the ANAO in discharging their advisory responsibilities and formulating their advice to the accountable authority
- requirements relating to how audit committee members will engage 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.

## 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. It is important that the accountable authority and the committee, through its chair, develop a sound working relationship and that the committee's work is responsive to the accountable authority's expectations. This requires that the accountable authority clarify its preferences for the communication style and frequency and that it nurture this relationship to gain the greatest value from the audit committee's assistance.

The audit committee's relationship with the accountable authority is crucial to the committee's effectiveness.

Direct formal and informal arrangements for reporting to the accountable authority should be included in the audit committee charter and should facilitate the committee's reporting on its activities, key risk areas, and internal audit and ANAO audit coverage.

### 3.2.2 Senior management

An entity's 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.

Such an approach can help the audit committee maintain an up-to-date understanding of the entity and help the chair to foster constructive relationships with senior management. Attendance at senior management meetings can also offer committee members opportunities to brief senior management on audit committee activities and discuss progress in selected areas—for example, in relation to implementing audit recommendations.

### 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 accountable authority in discharging its duties and requirements under the PGPA Act. Regardless of whether the internal audit function is delivered in-house or outsourced<sup>28</sup>, its purpose is to provide internal advice and assurance and should have unobstructed access to the accountable authority. The relationship between internal audit and the audit committee should be effective in supporting the audit committee's functions. While the accountable authority is responsible for its approval, the audit committee should have input to the internal audit function's work program and have access to internal audit reports to inform its advice to the accountable authority. It is good practice to invite the head of internal audit to attend audit committee meetings in an advisory capacity.

When interacting with internal audit, it is important for the audit committee to maintain its independence and not perform functions that are the responsibilities of the entity's management.

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<sup>28</sup> For further information on internal audit, refer to the Institute of Internal Auditors Australia publication: [Internal Audit in Australia](#).

### 3.3 Administrative arrangements

The accountable authority may wish to specify the administrative arrangements in relation to its audit committee. The audit committee charter could include:

- **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 to develop and maintain 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

### 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, taking and distributing minutes, and record keeping. The ANAO has highlighted the importance of good record keeping in relation to audit committees.<sup>29</sup>

The secretariat assists the audit committee in maintaining communication channels between internal audit and in keeping the accountable authority informed on the audit committee’s work.

In entities where the secretariat function is undertaken by the same area that performs the internal audit function, as may be the case with small entities of limited resources, it is important to ensure that the internal audit function maintains its independence from the audit committee and its accountability to the accountable authority. To manage the risk of conflicts of interest arising where the same officials perform both the internal audit and secretariat functions, processes should be developed to ensure the internal audit and audit committee remain independent sources of advice to an accountable authority.

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<sup>29</sup> ANAO Report no. 33, *Audit of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*, pp. 33–4.

## 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 accountable authority on its functions.

It may also specify any confidential and privacy requirements relating to information obtained by the committee in meeting its responsibilities.

## 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 accountable authority may consider:

- 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.

## 3.7 Reviewing and assessing committee performance

It is good practice<sup>30</sup> for an accountable authority 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 accountable authority—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
  - the committee's formal and informal communication with the accountable authority, 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 new members induction plan and members performance review processes

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<sup>30</sup> Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3<sup>rd</sup> edition, p. 67.

- 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.<sup>31</sup>

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

## Part 4 Annual reporting requirements

From the 2019-20 reporting period the PGPA Rule (s.17AG (2A)) 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;
- 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.

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.

The total remuneration of each of those members is defined by section 4 of the PGPA Rule to mean the sum of the following (calculated on an accrual basis):

- base salary;
- bonuses;
- other benefits and allowances;
- superannuation contributions (made by the employer);
- long service leave;

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<sup>31</sup> Auditing and Assurance Standards Board, Australian Institute of Company Directors & Institute of Internal Auditors—Australia, *Audit Committees: A guide to good practice*, 3<sup>rd</sup> edition, p. 67–8.

- other long-term benefits; and
- termination benefits.

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*<sup>32</sup> 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 private sector to improve transparency and accountability.

Information on Digital Annual Reporting Tool templates will be available in RMG 135 *Annual report for non-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 accountable authority'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?

<sup>32</sup> ASX Corporate Governance Council—Corporate Governance Principles and Recommendations, 4<sup>th</sup> edition, rec 4.1, p. 19–20.

- 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 accountable authority’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 against 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?
  - 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?
- Has the committee had access to the information it needs in order to form a view on the appropriateness of the accountable authority’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 accountable authority'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 accountable authority's system of risk oversight and management, including any necessary certifications from management?
- Is the entity's risk management framework comprehensive, in keeping with the Commonwealth Risk Management Policy 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?
- 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 properly 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 clearly expressed and work effectively?

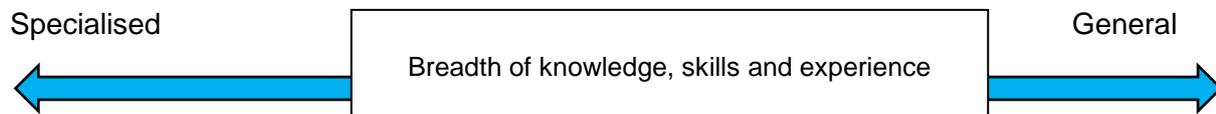
## System of internal control review function

### 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 accountable authority'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 accountable authority's system of internal control, including any necessary certifications from management?
- Are the entity's accountable authority instructions, delegations, 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 the effectiveness of 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 accountable authority 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	<ul style="list-style-type: none"> <li>✓ Accounting and auditing standards</li> <li>✓ Accounting and financial management</li> </ul>	<ul style="list-style-type: none"> <li>✓ The entity's operating context</li> <li>✓ PGPA Act and rules</li> </ul>	<ul style="list-style-type: none"> <li>✓ Business or industry in which the entity operates</li> <li>✓ Strategic thinking and awareness of government priorities</li> </ul>
Performance reporting	<ul style="list-style-type: none"> <li>✓ Sound understanding of the entity's purpose, and its business and services</li> <li>✓ Sound understanding of an industry/environment the entity is operating</li> <li>✓ Sound understanding of the Commonwealth performance framework and expectations for the performance reporting to inform the public and the Parliament</li> </ul>	<ul style="list-style-type: none"> <li>✓ The Commonwealth performance framework</li> <li>✓ Relevant legislative and policy requirements</li> <li>✓ The roles of external and internal audit</li> <li>✓ Entity's Portfolio Budget Statement and government outcomes</li> </ul>	<ul style="list-style-type: none"> <li>✓ Ability to question, enquire and investigate information</li> <li>✓ Completion of relevant recognised qualification</li> </ul>
System of risk oversight and management	<ul style="list-style-type: none"> <li>✓ Commonwealth Risk Management Policy</li> <li>✓ Risk identification, evaluation and management in complex organisations</li> <li>✓ Public/private sector risk management experience</li> <li>✓ Good understanding of public sector emerging risks and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>✓ Information management and security</li> </ul>	<ul style="list-style-type: none"> <li>✓ Research and data interrogation</li> <li>✓ Audit process management</li> <li>✓ Program and project management</li> </ul>
System of internal control	<ul style="list-style-type: none"> <li>✓ Accountability and internal control resource management guidance</li> <li>✓ Operations of government and the public sector</li> <li>✓ Understanding of processes, practices and record keeping in complex organisations</li> <li>✓ Understanding of compliance and internal control principles revision</li> <li>✓ Understanding of the key elements of control effectiveness and methodologies of assessment</li> <li>✓ Understanding of requirements of information and communication technology</li> </ul>		<ul style="list-style-type: none"> <li>✓ Strong leadership and stakeholder management</li> </ul>