



Public Sector Audit Committees

INDEPENDENT ASSURANCE AND ADVICE
FOR CHIEF EXECUTIVES AND BOARDS



Better Practice Guide

August 2011

ISBN No. 0 642 81209 8

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Foreword

Audit Committees have an important role in the governance framework of entities¹ by providing an independent source of assurance and advice to Chief Executives/Boards.² A distinguishing feature of an Audit Committee within an entity's governance framework is its independence and objectivity, as Audit Committees do not undertake management responsibilities and are not a substitute for entity management controls and accountabilities.

Better practice entities recognise the benefits of an Audit Committee with members who have a broad range of skills and experience who can independently review and advise on key aspects of an entity's operations including its: governance arrangements; risk management framework; internal control and compliance frameworks; and financial statement responsibilities.

This Guide updates and replaces the Australian National Audit Office's (ANAO) *2005 Public Sector Audit Committees Better Practice Guide*. While many of the principles and practices remain the same, this Guide incorporates a number of enhancements. These include a discussion on: a committee's responsibilities in relation to risk management and other portfolio entities; the benefits of periodically engaging with the entity Chief Executive/Board, including in relation to the committee's responsibilities for reviewing high risk programs and projects; the qualities of Audit Committee Chairs and members; the establishment of sub-committees; and the benefits of the committee preparing an assurance map to assist in identifying gaps in an entity's assurance framework. The Guide includes a number of new and updated checklists for use by both the committee and entity management.

The Guide also reflects the requirements of Financial Management and Accountability Regulation 22C, *Audit committees* that took effect on 1 July 2011.

The aim of the Guide is to provide guidance on the operation of the Audit Committees of public sector entities operating under both the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*. As with all of the ANAO's Better Practice Guides, each entity is encouraged to use the Guide to identify, and apply, better practice principles and practices that are tailored to its particular circumstances.

The Guide discusses a range of functions and responsibilities, grouped under nine broad areas, that are appropriate for an Audit Committee. Within this broad set of responsibilities, it is important that each committee, in consultation with the Chief Executive/Board, decide those aspects that the committee will give priority to and particularly focus on.

The Guide is intended as a reference document for Chief Executives, Boards, members of Audit Committees and senior managers with responsibility for Audit Committee activities, and complements the ANAO's Better Practice Guide *Public Sector Internal Audit* issued in September 2007.



Ian McPhee
Auditor-General

1 In this Guide the term 'entity' applies to all organisations subject to the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

2 There is a range of different governance structures within FMA and CAC entities depending upon the entity's particular enabling legislation or other instrument of appointment. For the purpose of this Guide, the term 'Chief Executive' is used for entities where responsibility and accountability rests with an individual (such as is the case for most FMA entities). The term 'Board' is used for those entities where there is a collective responsibility and accountability for the operation of the entity.

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Better practice attributes of Audit Committees

A better practice Audit Committee is distinguished by the following attributes:

Has a clearly documented charter that: has been determined having regard to relevant legislative requirements and the entity's broader corporate governance framework; includes the committee's responsibilities; and is approved by the Chief Executive/Board.

Possesses broad business, financial management and public sector experience and expertise.

Has a sound working relationship with the Chief Executive/Board.

Is able to exercise discretion in determining how best to meet its responsibilities.

Adopts an independent perspective and appreciates the separation of management and Audit Committee responsibilities.

Is knowledgeable about the entity's operations, particularly the entity's risks and the arrangements in place for the management of these risks.

Is chaired by a person who is able to lead discussions, encourage the participation of other members, and conduct meetings in an effective manner.

Encourages and maintains an open and constructive dialogue with senior management, internal and external audit, and other committees.

Effectively plans its activities to meet its responsibilities; focuses on the important issues and risks; is forward-looking; and adopts a continuous improvement approach in its interaction with entity management.

Monitors the implementation of recommendations made by internal and external audit and other review activities.

Ensures internal audit coverage: is aligned with the entity's risks; is an appropriate mix of performance and compliance audits; and includes a focus on the areas of greatest risk.

Receives an appropriate level of support and provides committee members sufficient opportunities to keep abreast of key developments in the entity and the public sector generally.

1 Introduction

Audit Committees play an important role in the governance framework of entities in both the public and private sectors. They are recognised as a valuable provider of independent assurance and advice on the entity's operations to the Chief Executive/Board of Directors (Board). They also provide independent assurance and advice to senior management and management committees to improve business performance.

Audit Committees do not displace or change the management accountability arrangements within entities, but enhance the existing governance framework, risk management practices, and control environment, by providing independent assurance and advice on key elements of an entity's operations.

Each public sector entity is different and each has its own particular governance framework, risk and control structures and supporting policies and processes. As such, the precise role each Audit Committee undertakes should be determined within the context of each entity's governance framework and other assurance mechanisms in place.

The ANAO has not attempted to establish one model that all entities should adopt. Rather, this Guide outlines a range of principles and practices that are applicable to a better practice Audit Committee.

Audit Committees provide independent assurance and advice to Chief Executives/Boards, senior management and management committees.

1.1 Application of the Guide

The principles and practices outlined in this Guide are generally applicable to all public sector entities, irrespective of the particular governance model adopted by each entity. A further discussion of the Guide's application and the terminology used is set out in Appendix 1.

1.2 Structure of the Guide

Part 1 of the Guide outlines the better practice principles and practices necessary to establish and effectively operate an Audit Committee in the public sector. Part 2 provides a model charter for a *Financial Management and Accountability Act 1997* (FMA) agency and a *Commonwealth Authorities and Companies Act 1997* (CAC) body. In Part 3, checklists and other material are provided, which Audit Committees are encouraged to tailor and use to assist in their effective operation.

1.3 Acknowledgements

The ANAO would like to express its appreciation to the entities and their staff and individual Audit Committee members that assisted with the Guide's update, either by their contribution of better practice examples and ideas and/or by providing valuable feedback as the Guide was updated.

2 The Audit Committee's functions and responsibilities

In determining the responsibilities of an audit committee, the Chief Executive of FMA agencies must comply with the requirements of the FMA Act and Regulations,³ and the Board of CAC entities must comply with the CAC Act and Regulations.⁴

As outlined in FMA regulation 22C (5), the Chief Executive may add to, or vary, the functions of an FMA Audit Committee (as outlined in Regulation 22C (4)) having regard to:

- (a) the agency's governance framework and assurance mechanisms; and
- (b) the key risks to the agency, including the risks relating to program delivery and implementation.

When the Chief Executive decides to vary the functions of the audit committee, his or her decision should be documented, and the full functions of the committee set out in its charter.

It is expected that the Chief Executive would seek advice from the Audit Committee on the committee's functions, including the rationale for recommending any substantial variation from those outlined in FMA Regulation 22C(4).

In CAC entities, the Board would be expected to take into account the following factors determining the Audit Committee's functions:

- the entity's governance arrangements, including other mechanisms that provide assurance to the Chief Executive/Board about the entity's risks and operations;
- the entity's business risks, and the extent to which it is expected that the committee will provide independent assurance over the management of these risks; and
- input from key stakeholders, including the Chief Executive.

The Audit Committee's responsibilities will also be affected by whether the entity has established a separate committee(s) to undertake particular responsibilities, for example a 'risk', 'fraud' or 'security' committee. In such cases the Chief Executive/Board should determine whether the Audit Committee's role will include a review role in relation to the activities of these committees.

The Audit Committee should not be seen as a 'catch-all or default' committee tasked with a range of ad hoc responsibilities, but as a committee that has a key, focused, role in providing independent assurance that assists the Chief Executive/Board to discharge their respective responsibilities.

As such, a better practice Audit Committee is one that is able to perform its core responsibilities well, rather than one that is tasked with such a broad range of responsibilities that it is unable to give sufficient attention to those issues on which the Chief Executive/Board is relying on the committee to provide independent assurance.

Audit Committees have a focused role in providing independent assurance to the Chief Executive/ Board.

³ Section 46 of the FMA Act and FMA Regulation 22C are reproduced in Appendix 2 at pages 51 to 54.

⁴ Section 32 of the CAC Act and the CAC Regulation 6A are reproduced in Appendix 2 at pages 54 to 56.

Audit Committee functions and responsibilities

The functions and responsibilities of a better practice Audit Committee will generally be to provide independent assurance and advice in the following areas:

- risk management;
- internal control;
- financial statements;
- compliance requirements;
- internal audit;
- external audit; and
- other relevant functions including review of an entity's governance arrangements⁵; performance framework; relevant parliamentary committee reports and recommendations; and portfolio responsibilities.

In total, these represent a broad set of functions and responsibilities. It is therefore important that each committee, in consultation with the Chief Executive/Board, decide those aspects of an entity's operations that the committee will give priority to and particularly focus on.

2.1 Risk management

The Chief Executive/Board will generally seek assurance from the Audit Committee that risk management arrangements are appropriate and operationally effective.

Risk management is the culture, processes and structures that are directed towards realising potential opportunities while managing adverse effects.⁶ Risk management is an essential part of effective corporate governance. Although ultimate accountability for the management of risk remains with the Chief Executive/Board, the Chief Executive/Board will generally seek assurance from the Audit Committee that management has in place policies and arrangements designed to demonstrate that the operation of an entity's risk management arrangements are appropriate and operationally effective. This assurance role can extend to assisting the overall alignment and integration of risk management plans and the integration of risk management into business planning and program implementation activities. Better practice committees will also generally have a key role in providing assurance that management has in place effective risk management practices when implementing high risk projects, programs and/or activities.

Better practice tip: Audit Committee's risk management responsibilities

For the Audit Committee to effectively meet its risk management responsibilities, it is important that the committee fully understands the:

- Chief Executive/Board's approach and attitude to the management of risks by the entity, including the entity's assessment of risks; and
- arrangements in place for the management of its risks, particularly the entity's highest risks.

⁵ For FMA agencies, see FMA regulation 22C(4) (a).

⁶ Standards Australia AS/NZS ISO 3100:2009 *Risk Management – Principles and Guidelines*, 16 October 2009. Available at <<http://infostore.saiglobal.com/store>>.

Where the Chief Executive/Board agrees that the Audit Committee will have an assurance role in relation to individual projects, programs or activities, it is important that the committee's role is formalised and included in the governance arrangements for the project, program or activity.

Review of an entity's management of fraud risks is generally undertaken as an integral part of an Audit Committee's risk management responsibilities. An Audit Committee can play a key role in securing awareness that fraud control interacts and links with other governance frameworks across the entity. This is consistent with the Commonwealth Fraud Control Guidelines, which indicate that 'Fraud risk should not be looked at in isolation from the general business of the agency but should be considered as an aspect of the agency's broader risk assessment processes, including the agency's security risk assessment.'

Audit Committee risk management responsibilities

An Audit Committee's responsibilities in relation to risk management would generally be to:

- review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures designed to ensure that the identification and management of the entity's business and financial risks, including fraud, are effective;
- where agreed by the Chief Executive/Board, determine whether a sound and effective approach has been followed in managing the entity's major risks including those associated with individual projects, program implementation, and activities;
- assess the impact of the entity's enterprise risk management framework on its control environment and insurance arrangements;
- determine whether a sound and effective approach has been followed in establishing the entity's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested;
- review the entity's fraud control arrangements and satisfy itself the entity has appropriate processes or systems in place to capture and effectively investigate fraud-related information; and
- review reports on fraud from the entity's Fraud Manager that outline any identified allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in the entity.

It is important that the Audit Committee fully understands the Chief Executive/Board's approach to the management of risks.

Part 3 includes committee and management checklists in relation to risk management fraud control (pages 77 to 84).

7 ANAO Better Practice Guide *Fraud Control in Australian Government Entities*, 2011, Section 3.4.1.

8 *Commonwealth Fraud Control Guidelines*, Attorney General's Department, Canberra 2011, para 6.2.

9 *AS/NZS ISO 3100:2009 Risk Management – Principles and Guidelines* defines a risk management framework as 'a set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation.'

10 In exercising these responsibilities in particular, it is important that the committee's responsibilities be determined at the commencement of the program or activity, in consultation with those with line management responsibility for the program or activity.

2.2 Internal control

The Audit Committee will generally be responsible for reviewing the adequacy of the entity's internal control environment to provide assurance that the entity's key controls are designed appropriately and are operating as intended. In fulfilling this responsibility, the committee could be expected to obtain information from management and also from internal and external audit on the design and operation of key financial controls and assurance processes. To do this effectively, Audit Committees are expected to have a good understanding of the entity's internal control framework, including the entity's Chief Executive's Instructions or equivalent, and mechanisms in place to periodically assess compliance with the entity's financial management responsibilities.

Audit Committees are expected to have a good understanding of the entity's internal control framework.

Audit Committee internal control¹¹ responsibilities

An Audit Committee's responsibilities in relation to an entity's internal controls would generally be to:

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors, is sound and effective;
- review whether management has in place relevant policies and procedures, including Chief Executive's Instructions or their equivalent, and that these are periodically reviewed and updated;
- determine whether appropriate processes are in place to periodically assess compliance with legislation and key policies;
- review whether appropriate policies and supporting procedures are in place for the management and exercise of compliance, internal policy, and delegations requirements;
- consider how management identifies any required changes to the design or implementation of key internal controls; and
- assess whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

Part 3 includes a committee and management checklist in relation to an entity's internal control (pages 56 to 90).

2.3 Financial statements

The review by the Audit Committee of the entity's financial statements and advising the Chief Executive/Board on the results of the committee's review is an important responsibility of all Audit Committees.

To be able to perform this role effectively, it is important that the Audit Committee is advised, on an ongoing basis throughout the year (and not just at year-end) of significant issues that may affect the financial statements. This would include accounting and financial reporting issues identified by management, internal audit or external audit. Where such matters are identified, the Audit Committee should seek assurance from management that the issues

¹¹ Internal control can be defined as 'the process designed, implemented and maintained by the entity to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term 'controls' refers to any aspects of one or more of the components of internal control.' (Adapted from the definition of 'Internal Control' included in Australian Auditing Standard ASA 315 *Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity Audit Environment*.)

The review of the entity's financial statements is an important responsibility of all Audit Committees.

are being adequately addressed in a timely manner so that, to the extent possible, they do not impact adversely on the entity's ability to prepare its financial statements to the required standard and within the agreed timeframe. The timely consideration of any such issues will help engender a policy of 'no surprises'.

There can often be benefits in an Audit Committee establishing a financial statements sub-committee to assist it in meeting its financial statement responsibilities. Such a sub-committee is able to dedicate time to interacting with management on the planning for, and preparation of, an entity's financial statements, including being satisfied with the resolution of any significant issues that may affect the timely completion of the preparation and audit of the statements. However, the use of a financial statements sub-committee does not abrogate the Audit Committee's responsibilities, and the Audit Committee should specify the sub-committee's reporting arrangements to the full committee.

The judgement in *ASIC v Healy & Ors* [2011] FCA 717 (the Centro Case), highlighted the responsibilities that directors have in relation to a company's financial statements, including the extent to which directors are entitled to rely on specialist advice and others in discharging their duties. The general principles covered by the judgement have application to the directors of CAC entities, and FMA agencies where the Chief Executive is responsible for signing the agency's financial statements.

In the light of this judgement, it would be prudent for all Audit Committees to review their own arrangements for reviewing an entity's financial statements and the processes, including the timeframes involved, in providing advice to the Chief Executive/Board on the results of their review.

There can often be benefits in an Audit Committee establishing a financial statements sub-committee to assist it in meeting its financial statement responsibilities.

Audit Committee financial statement responsibilities

An Audit Committee's responsibilities in relation to the entity's financial statements would generally be to:

- review the financial statements and provide advice to the Chief Executive/Board, (including whether appropriate action has been taken in response to audit recommendations and adjustments)¹² and recommend signing of the statements by the Chief Executive/Chair of the Board¹³;
- satisfy itself on the adequacy of key internal controls and their operation, and that the financial statements are supported by appropriate management sign-off on the statements; and
- review the processes in place designed to ensure that financial information included in the entity's annual report is consistent with the signed financial statements.

Part 3 includes a committee and management checklist in relation to the financial statements (pages 91 to 97).

2.4 Compliance requirements

Reviewing the effectiveness of how an entity is monitoring its compliance with relevant legislation, regulations and associated government policies is generally an established function of Audit Committees.

¹² FMA Regulation 22C(4) provides for the Audit Committee to advise the Chief Executive on the preparation and review of the agency's financial statements.

¹³ Further information on the role of the Audit Committee in reviewing an entity's financial statements is in the ANAO's Better Practice Guide *Preparation of Financial Statements by Public Sector Entities*, June 2009. Available at <<http://www.anao.gov.au>>.

Reviewing the entity's compliance with relevant legislation, regulations and associated government policies is generally an established function of Audit Committees.

Entity compliance can be grouped into four broad categories:

- (a) legislation and policy administered by the entity that it also needs to comply with;
- (b) framework legislation and policy such as the FMA Act, the CAC Act and the *Public Service Act 1999* and related policies;
- (c) legislation and policy that has general application to the entity in areas such as security, occupational health and safety, privacy, and freedom of information; and
- (d) international conventions.

Entities must comply with a considerable volume and complexity of legislation and policy. It would therefore be expected that Audit Committees will focus on those aspects that pose the highest risk to the entity, and on how the entity manages its compliance responsibilities.

An important responsibility of Audit Committees is reviewing the processes management has in place designed to ensure the entity is kept up to date with new legislation or changes to existing legislation relevant to the entity.

Audit Committee compliance with legislative and policy requirements

An Audit Committee's responsibilities in relation to legislative and policy compliance would generally be to:

- review the effectiveness of the system for monitoring the entity's compliance with those laws, regulations and associated government policies that the entity administers and must comply with;
- determine whether management has appropriately considered legal and compliance risks as part of the entity's enterprise risk management plan;
- provide advice to the Chief Executive/Board regarding the issue of the entity's annual Certificate of Compliance/Compliance Report;¹⁴
- review, where relevant, the entity's compliance with International Conventions, particularly the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions¹⁵; and
- provide advice to the Chief Executive/Board regarding the entity's reporting responsibilities in relation to fraud and security.¹⁶

Appendix 2 details the legal status and legislative and policy requirements for Audit Committees.

Part 3 includes a committee and a management checklist in relation to compliance with legislative and policy requirements (pages 98 to 104).

14 Chief Executives of FMA agencies are required to provide a Certificate of Compliance, in the form prescribed by the Department of Finance and Deregulation, to their portfolio minister and copied to the Finance Minister by 15 October each year. The Board of General Government Sector CAC authorities and wholly-owned companies are also required to provide a Compliance Report in the form prescribed by the Department of Finance and Deregulation, to the Secretary of Finance on behalf of the Finance Minister by the fifteenth day of the fourth month after the end of the financial year of the body. Although in most cases an entity's financial statements will be signed before the deadline for the submission of an entity's certificate of compliance, it would be expected that the Audit Committee will consider the entity's compliance with relevant legislation and policies to assess the extent to which any non-compliance may affect the entity's financial statements.

15 In line with this convention, the Australian Parliament has enacted the *Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999*. It is recognised that this matter is likely to be low risk for many entities. The Institute of Chartered Accountants in Australia and PricewaterhouseCoopers' *Guide to Foreign Bribery and Corruption* provides guidance to Audit Committees on meeting their responsibilities in this area.

16 The Commonwealth Fraud Control Guidelines require Chief Executives of FMA agencies and certain CAC bodies to report annually to their minister on fraud risk and fraud control measures. The Australian Government Protective Security Policy Framework requires agencies and relevant CAC bodies to report compliance with the mandatory requirements of the Policy to the relevant portfolio minister.

Cross-agency governance

In meeting their responsibilities, it is important that Audit Committees consider the implications of cross-agency governance arrangements.

These arrangements are becoming more common as governments address increasingly complex and/or wide-ranging policy and operational issues that involve more than one agency and/or jurisdiction. As a result, audit committees' responsibilities increasingly involve consideration of such arrangements.

Where an entity's activities involve cross-agency arrangements, it would be expected that they would require specific consideration when the Audit Committee is reviewing the entity's risk management and control frameworks, legislative compliance, financial statement and other obligations.

In considering cross-agency issues, the Audit Committee should be cognisant of its general responsibility to ensure entity information and documents to which it has access remain confidential. Where there are benefits in sharing information with another entity, the Audit Committee should seek the authority of the Chief Executive/Board, if not already provided.

Better practice tip: Sharing information between Audit Committees

Where cross-agency arrangements exist, there may be benefit in sharing information between Audit Committees. Before doing this, it is important to obtain approval from the Chief Executive/Board to share information outside the entity.

Audit Committees should consider the implications of cross-agency governance arrangements and the provision of services by external service providers.

Often cross-agency arrangements involve multiple legislative requirements, contracts, service-level agreements or memoranda of understanding with other entities, and can involve complex monitoring and reporting arrangements. Audit Committees should explicitly consider, in consultation with the Chief Executive/Board and other entities involved, the role they will play in providing assurance and advice on these arrangements. In considering their role, Audit Committees must recognise the likely additional time, effort and resources this may involve, and the impact on the committee's work program and meeting schedule.

In particular, some cross-agency arrangements will be material in the context of the entity's financial statements. In this case, the Audit Committee may be required to play a pivotal role in reviewing the mechanisms that provide the required assurance to the Chief Executive/Board.

External service provision

In a similar way to cross-agency arrangements, program and service delivery using external service providers can have important risk management, control, security, and accountability implications. Reviewing the legal and administrative arrangements in place to effectively manage external service providers can be part of an Audit Committee's responsibilities.

Generally, as part of the committee's internal control responsibilities, it would review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors, is sound and effective.

2.5 Internal audit

A strong relationship between the Audit Committee and the entity's internal auditors enables the committee to meet its responsibilities and carry out its functions. Internal audit is a major source of information to the Audit Committee on the performance of the entity and its control environment. To maximise the value provided by internal audit to the Audit Committee, it is important that open lines of communication are established and maintained between internal audit and the committee.

It is important that open lines of communication are established and maintained between internal audit and the Audit Committee.

Audit Committee internal audit responsibilities

An Audit Committee's responsibilities in relation to internal audit would generally be to:

- act as a forum for communication between the Chief Executive/Board, senior management and internal and external audit¹⁷;
- review internal audit coverage¹⁸ and ensure the internal audit plan is aligned with the entity's risks, and recommend approval of the plan by the Chief Executive/Board;
- advise the Chief Executive/Board on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan;
- coordinate, as far as practicable, the audit programs conducted by internal and external audit and other review functions¹⁹;
- review all audit reports and provide advice to the Chief Executive/Board on significant issues identified and action to be taken on issues raised that are relevant to the entity, including the identification and dissemination of good practice²⁰;
- monitor management's implementation of internal audit recommendations;
- review the internal audit charter to ensure appropriate authority, access and reporting arrangements are in place;
- periodically review the performance of internal audit; and
- provide advice to the Chief Executive/Board on the appointment of the Head of Internal Audit (in the case of an in-house internal audit function) or the appointment of the internal auditor where outsourced or co-sourced.

Part 3 includes a committee and an internal audit checklist in relation to internal audit (pages 105 to 108).

17 Section 46 of the FMA Act states that a function of the Audit Committee of FMA agencies is to provide a forum for communication between the Chief Executive, the senior manager of the Agency and the internal and external auditors of the Agency. Section 32 of the CAC Act states that a function of the Audit Committee of CAC entities is to provide a forum for communication between the directors, the senior managers of the authority and the internal and external auditors of the authority.

18 FMA Regulation 22C(4)(c) provides for the Audit Committee to advise the Chief Executive about audit plans of the Agency.

19 FMA Regulation 22C(4)(a) provides for the Audit Committee to, as far as practicable, coordinate the audit programs relating to internal and external audits.

20 FMA Regulation 22C(4)(i) provides for the Audit Committee to review the content of reports of internal and external audit, for the purpose of identifying material that is relevant to the Agency, and advising the Chief Executive about good practices. FMA Regulation 22C(4)(j) provides for the Audit Committee to advise the Chief Executive about action to be taken on significant matters of concern, and on significant opportunities for improvement that are mentioned in the reports of internal and external audit.

2.6 External audit

A good relationship with external audit²¹ can provide the Audit Committee with valuable insights into the effectiveness of the entity's risk, control, financial reporting and legislative frameworks. The Audit Committee would benefit from actively engaging with external audit on its full range of responsibilities.

Audit Committee external audit responsibilities

An Audit Committee's responsibilities in relation to external audit would generally be to:

- act as a forum for communication between the Chief Executive/Board, senior management and external audit on the committee's full range of responsibilities²²;
- provide input and feedback on the financial statements, performance audit and assurance review coverage proposed by external audit, and provide feedback on the audit services provided²³;
- review all external audit plans and reports in respect of planned or completed audits and monitor management's implementation of audit recommendations²⁴; and
- provide advice to the Chief Executive/Board on action to be taken on significant issues raised in relevant external audit cross-entity reports or better practice guides.

Part 3 includes a committee checklist in relation to external audit (page 109).

2.7 Other relevant responsibilities

Other responsibilities that Audit Committees may have are outlined below.

Entity governance arrangements

Governance arrangements vary depending on an entity's size, complexity and nature. Entity governance arrangements can change over time due to, for example, legislative changes that may increase or decrease an agency's responsibilities. Audit Committees could periodically review the effectiveness of their entity's governance arrangements or elements of the arrangements as determined by the Chief Executive/Board and suggest improvements, where appropriate, to the Chief Executive/Board.

Performance reporting framework

The Chief Executive/Board may also wish the Audit Committee to review the entity's performance reporting framework. Public sector entities generally measure their performance against a range of indicators, not just the entity's 'bottom line'. Performance reporting frameworks or regimes should link directly with organisational objectives and outcomes.

The committee's responsibilities in relation to the entity's performance could be undertaken in a similar way to its review of the entity's risk management framework.

The Audit Committee would benefit from actively engaging with external audit on its full range of responsibilities.

Audit Committees should periodically assess an entity's governance arrangements.

²¹ The external audit function for FMA and CAC entities is carried out by the Auditor-General as provided for by the *Auditor-General Act 1997*.

²² See Section 46 of the FMA Act.

²³ This may involve seeking advice from external audit on the nature and impact of changes in accounting and auditing standards and the Finance Minister's Orders.

²⁴ See FMA Regulation 22C(4)(j).

It is recognised that review of an entity's performance reporting regime can be a significant task for an audit committee, particularly where an entity has a range of performance measures across a number of programs. As such, the capacity of the committee and the maturity of the entity's performance regime are factors that should be taken into account in determining the committee's role in this area.

Parliamentary committee reports and recommendations

Another important responsibility of Audit Committees can be to monitor management's consideration of relevant parliamentary committee reports and external reviews; and where appropriate, monitor the implementation of associated recommendations. This responsibility is consistent with the committee's responsibilities in relation to internal and external audit reports and recommendations.

Portfolio responsibilities

A portfolio department's Chief Executive's responsibilities in relation to the entities within the portfolio are a matter for the portfolio minister. Where the responsibilities of the portfolio department's Chief Executive include providing advice to the minister about significant issues and developments in other portfolio entities, there is likely to be a role for the portfolio department's Audit Committee.

To assist the portfolio department Chief Executive in meeting these responsibilities, the Audit Committee of the portfolio department could be given responsibility to provide advice on the effectiveness of the arrangements by which the Chief Executive is informed of significant issues within the portfolio, particularly those that may require bringing to the attention of the Minister. This role would not extend to being a de facto portfolio audit committee, as each portfolio entity has its own Audit Committee.

Audit Committee other responsibilities

An Audit Committee's responsibilities in relation to the areas outlined at section 2.7 above would generally be to satisfy itself that:

- the entity's governance arrangements remain relevant and responsive to business developments and changes in business risks;
- the entity has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary committee reports and recommendations;
- the entity has a performance management framework that is linked to organisational objectives and outcomes;²⁵
- management has in place appropriate processes to develop performance indicators, and systems and procedures to report against them in the entity's annual report; and
- appropriate mechanisms are in place for the portfolio department Chief Executive to be informed of significant issues within the portfolio that may affect his/her portfolio responsibilities.

Part 3 includes a committee checklist in relation to the committee's other responsibilities (page 110).

²⁵ It is recognised that, in some entities, this role is undertaken by an Executive Committee/Board.

Another important responsibility of Audit Committees can be to monitor management's consideration of relevant parliamentary committee reports and external reviews.

2.8 Managing the Audit Committee responsibilities

There are a number of mechanisms available that can assist Audit Committees to manage their responsibilities. These include:

- having an up-to-date charter;
- conducting an assurance mapping exercise;
- establishing sub-committees;
- having effective secretariat support arrangements and arranging meeting agendas so that meetings focus on the most important issues—discussed further in Chapter 5, section 5.2; and
- setting a forward meeting schedule—discussed further in Chapter 5, section 5.3.

Audit Committee charter

Once the Chief Executive/Board has determined the Audit Committee's responsibilities, these should be clearly outlined in the Audit Committee charter (see Part 3 for the model charter for Audit Committees).

The charter is a key document that clearly articulates the committee's terms of reference as endorsed by the Chief Executive/Board. Once established, the charter should be reviewed and, where necessary, updated each year.²⁶ It may be appropriate to seek input from the Chief Executive/Board, to ensure the charter continues to meet the expectations of both the Chief Executive/Board and the Audit Committee. The committee could also seek feedback from the Chief Operating Officer, the Chief Financial Officer, The Head of Internal Audit, and external audit. Where the committee recommends changes to the charter, the Chief Executive/Board would be expected to approve the revised charter.

The Audit Committee's responsibilities should be clearly outlined in the committee's charter.

Assurance mapping

To assist the Audit Committee to obtain a full understanding of an entity's assurance arrangements, there can be benefit in the Audit Committee commissioning an assurance mapping exercise. Recognising that entities have a variety of assurance mechanisms and arrangements in place, such an exercise can be a useful way of obtaining a broad entity-wide perspective of the 'assurance landscape', assist in identifying any gaps or duplication in an entity's arrangements, and can be used to complement the entity's Risk Management Framework.

Mapping an entity's assurance landscape should not be seen as an exercise that requires detailed analysis; broad judgements could be expected to be made following a review of existing documentation and discussions with relevant entity managers.

Such an assurance mapping exercise, when completed, can identify any key risks that are not being addressed by either internal audit or other assurance or review activity. Appendix 3 includes an example of an assurance map for use by Audit Committees.

An assurance mapping exercise can be a useful way of obtaining a broad entity-wide perspective of the 'assurance landscape'.

²⁶ A review of each FMA agency's Audit Committee's charter against the requirement of FMA Regulation 22C should be undertaken in a timely manner to ensure each agency complies with the Regulation prior to the end of the transition period on 30 June 2012.

Audit Committee sub-committees

The establishment of one or more sub-committees can be an effective way for Audit Committees to manage their responsibilities.²⁷ Sub-committees can be standing committees or established to assist in addressing particular issues for a defined period of time. Relevant considerations in deciding whether to establish a sub-committee include:

- the benefit of dealing with substantive or complex matters and issues in more depth than is possible at full committee meetings, including detailed interaction with entity management. This might include, for example, issues of a more technical nature, such as the entity's financial statements and information technology; the implementation of high risk projects, programs, and/or activities; or where there is a considerable volume of documentation involved, such as large numbers of reports;
- the frequency with which the committee would be required to meet to effectively undertake its responsibilities in respect of particular matters or functions. For certain issues, the committee's involvement may be required to be more frequent than scheduled committee meetings; and
- the capacity of the committee as a whole and individual members to understand particular matters—these could include, for example, an agency's financial statements or information technology risks and controls.

Better practice tip: Audit Committee sub-committees

The establishment of one or more sub-committees can be an effective way for an Audit Committee to manage its responsibilities.

Audit Committee sub-committees should not assume management responsibilities.

When an agency establishes one or more Audit Committee sub-committees, it is important that:

- the responsibilities, membership, and reporting arrangements of each sub-committee are included in the Audit Committee's charter and the charter makes it clear that responsibility for the sub-committee's functions remains with the Audit Committee;
- a member of the full committee is appointed as Chair of the sub-committee; the membership of sub-committees could extend beyond members of the Audit Committee if additional expertise on particular matters is required;
- minutes of all meetings are taken, distributed promptly to all members of the Audit Committee, and the minutes or a report in an agreed form are tabled at the next Audit Committee meeting; and
- important issues that may require consideration by the Audit Committee are brought to the attention of the Chair following a sub-committee meeting so that the Chair is in a position to decide what action to take.

Audit Committee sub-committees are not to assume management functions nor can management be allowed to exert inappropriate influence over the work of sub-committees.

²⁷ The establishment of sub-committees does not diminish the responsibilities of the full Audit Committee. The general principles covered by the judgement in the Centro Case, referred to on page 9 are also relevant to sub-committees. Sub-committees' responsibilities should be clearly documented by the full Audit Committee, including formalising lines of reporting.

3 Membership of the Audit Committee

Having a Chair and other committee members who have an appropriate mix of skills and experience relevant to the entity's responsibilities is the key to an Audit Committee's effectiveness.

3.1 Audit Committee membership

The number of members and the skills and experience of the Chair and other committee members will depend on a number of factors including:

- the nature of the entity's responsibilities;
- the size, scale, location and diversity of the entity; and
- the complexity, nature and scale of the entity's activities and systems; particularly its information technology systems.

It is better practice for the committee to include one or more members external²⁸ to the entity.

3.2 The Audit Committee Chair

The chair of the audit committee plays a pivotal role in the overall effectiveness of the audit committee. The chair of the audit committee should not also be chair of the board.²⁹

The Chief Executive/Board must appoint one of the committee members as Chair of the Audit Committee.³⁰ When appointing the Chair, the Chief Executive/Board should particularly consider the personal qualities and abilities of the potential Chair to lead discussions, encourage participation of other members, and conduct meetings in a manner that demonstrates a desire to establish effective communications with all stakeholders. The following table lists the qualities of a better practice Audit Committee Chair.

An important consideration in the appointment of the Audit Committee Chair is the individual's personal qualities and abilities.

28 An external committee member is a person that is not an employee of the entity. FMA Regulation 22C requires FMA agencies to have, as far as practicable, at least one external member.

29 *Audit Committees A Guide to Good Practice*, The Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors of Australia, 2007, p. 35.

30 When a new Chief Executive/Chair of the Board is appointed, it would be expected that the Audit Committee Chair would discuss the tenure of his or her appointment with the new Chief Executive/Chair of the Board at an appropriate time.

Qualities of a better practice Audit Committee Chair

The Chair would be expected to:

- have the active support of, and maintain regular dialogue with, the Chief Executive/Board;
- ensure the committee undertakes its responsibilities as outlined in the committee charter;
- maintain an open and constructive relationship with senior management, internal and external audit, and other entity committees;
- have a clear understanding of the responsibilities of the committee, its position within the entity's governance structure and the entity's work, and maintain a dialogue with senior managers about the committee's work;
- arrange for committee members to maintain an up-to-date knowledge of the entity and its activities;
- be a good communicator who facilitates discussion and focuses on the important matters;
- effectively plan and manage committee meetings; and
- devote sufficient time to prepare for committee meetings and to engage with the Chief Executive/Board, senior management and other stakeholders outside committee meetings.

It is also important for the Chair to have a good understanding of the entity.

It is also important for the Chair to have a good understanding of the entity and the Chief Executive/Board should take steps aimed to ensure the Chair is provided with sufficient initial and ongoing briefings and information about business developments.

There is merit in the Chair being appointed for a minimum period of three years, with a one or two year extension option. A term of three to five years provides the opportunity for the Chair to contribute most effectively and provide a level of stability to the leadership of the committee. There may be circumstances where it is appropriate to extend the term of appointment beyond five years.

Better practice tip: Audit Committee Chair responsibility

The Chair of the Audit Committee should be alert to any gaps in the knowledge and expertise of committee members about the entity and its activities and make arrangements for committee members to maintain up-to-date knowledge.

It is appropriate for a Deputy Chair to be appointed so the nominated member is able to act as Chair if the Chair is unable to attend meetings.

In CAC entities that are governed by a Board, the Chair of the committee is required to be a non-executive director.³¹

³¹ See CAC Regulations *Audit committees for Commonwealth authorities*.

In FMA agencies it is recognised that Audit Committees will generally include one or more members who are managers of the agency. As such, the appointment of an external member as Chair strengthens the actual and perceived independence of the committee. Sometimes, for example, in large and complex entities, it may be appropriate for the external member to first serve as a member of the Audit Committee, to gain the necessary knowledge and the respect and confidence of the Chief Executive and other committee members, before assuming the role of Chair. If an internal member is appointed as Chair of an FMA agency committee, the Audit Committee can put in place arrangements to reduce the risk of a real or perceived lack of independence. These could include:

- providing, in the committee charter, the authority for all committee members to have access to the Chief Executive and reasonable access to entity staff;
- requiring at least one, and possibly more, external members be appointed to the committee; and
- when there is more than one external member, there be a requirement that at least one of these members be present at committee meetings in order to form a quorum.

3.3 Appointment of Audit Committee members

When considering the membership of the Audit Committee, entities should aim to achieve a mix of expertise and qualifications relevant to the nature of the entity, its size and the Audit Committee's responsibilities.

Better practice tip: Appointment of Audit Committee members

Before appointment of a new member, the Chief Executive/Board is to be made aware of the proposed appointee's responsibilities in relation to other entity Audit Committees and other appointments or activities that may affect the person's capacity to be an effective committee member.

Entities should aim to achieve a mix of individuals, expertise and qualifications relevant to the nature and size of the organisation and the committee's responsibilities.

The size of the Audit Committee is normally influenced by the nature and extent of its responsibilities but commonly comprises three to six members.

Personal qualities of Audit Committee members

In determining the composition of an Audit Committee, consideration of the personal qualities of members is critical. Committee members can be expected to possess all or the majority of the qualities listed below.

Members are expected to act in the best interest of the entity as a whole.

Personal qualities of Audit Committee members

It would be expected that Audit Committee members have the ability to:

- act in the best interests of the entity as a whole;
- be proactive in identifying issues and risks that require further management attention;
- ask relevant questions, evaluate the answers and continue to probe for information until completely satisfied with the answers provided;
- encourage openness and transparency;
- work constructively with management to achieve continuous improvement within the entity;
- express opinions frankly, ask questions that draw out the key issues and pursue independent lines of enquiry;
- appreciate the entity's culture and values, and a determination to uphold these values coupled with a thoughtful approach to the ethical issues that might be faced;
- display a professional approach to duties, including an appropriate commitment of time and effort; and
- convey technical matters to other members of the committee, where Audit Committee members have been chosen for particular technical skills.

The Chief Executive/Board should appoint members who collectively possess broad business, financial management and public sector experience.

Other attributes that will assist Audit Committee members to contribute to the committee's success include: good judgement, objectivity and honesty, a high level of ethics, and strong communication skills. It is also expected that all committee members would have security clearances at a level commensurate with the security classification of documents accessed by members.

Knowledge and expertise of Audit Committee members

Given the nature of the responsibilities of the Audit Committee, the Chief Executive/Board should appoint members who collectively possess broad business, financial management and public sector experience, and general knowledge of most or all of the areas listed below.

Areas of knowledge or expertise beneficial to Audit Committee members

It could be expected that, collectively, members have knowledge or expertise in:

- the business or industry in which the entity operates;
- risk identification, evaluation, and management;
- project and program management;
- information management and security;
- the operations of government and the public sector including information technology systems and controls;
- the roles of internal and external audit;
- the application of accounting, auditing and assurance standards;
- relevant legislative and other policy requirements of the entity;
- public sector reporting requirements, including financial and performance reporting; and
- internal control, compliance activities and fraud control.

It is important to the effective working of an Audit Committee that its members have sufficient entity knowledge. If the membership of the Audit Committee is relatively new, a higher proportion of members who know the organisation can initially be helpful. However, where a member's involvement with the entity is only through the Audit Committee, it is important that processes are established to help with the familiarisation process and to keep members up-to-date with new developments. This is a responsibility of management that should be clearly articulated by the Chief Executive/Board, including the allocation of responsibility for the initial induction of external members and subsequent briefings on business developments.

Given the specific responsibilities of the Audit Committee to advise the Chief Executive/Board on an entity's financial statements, at least one member of the committee should have sound accounting or related financial management experience and/or qualifications, with a comprehensive understanding of accounting and auditing standards. All members should have sufficient understanding of the entity's financial reporting responsibilities to be able to contribute to the committee's consideration of the annual financial statements.

Additionally, there are other areas of entity business operations that are specialised in nature, where the Audit Committee would benefit from having a member(s) with skills and experience in the specific business operation to assist the committee to meet its responsibilities. For example, where information technology systems have an important role in an entity's business, it would be preferable for one member of the committee to have comprehensive information technology management experience and/or qualifications.

At least one member of the committee should have sound accounting or related financial management experience and/or qualifications.

Better practice tip: Skills of Audit Committee members

Audit Committee members require skills and experience relevant to the functions of the entity. For example, an entity that is involved in the financial markets will require committee members with relevant financial experience and skills.

Entity managers should be appointed based on their ability to contribute to the work of the committee, including their ability to bring an independent perspective to matters dealt with by the committee. It is important that entity managers are not selected solely on the basis of their role or position.

Entity managers are not to be selected solely on the basis of their role within the entity.

There may also be benefits in appointing a member from another Australian Government entity as an external member, particularly where the entities have close working relationships or where a person has particular expertise in relation to a program or activity that is being implemented. Such appointments could be for shorter periods of time or could be in addition to the committee's normal membership.

It may also be appropriate for the Audit Committee to seek external specialist advice, as and when required, rather than trying to maintain particular expertise within the committee. For example, where an entity is tasked with a new role that requires implementation of a specialised information technology system, the committee may seek advice from an expert on that system during the implementation phase to assist the Committee in its review role.

Independence of Audit Committee members

The distinguishing feature of an Audit Committee is its independence. An Audit Committee is independent of the activities of management and this independence assists in ensuring that an Audit Committee acts in an objective, impartial manner free from any conflict of interest or inherent bias or undue external influence.

Where Audit Committee members are managers of the entity who are appointed by, and accountable to, the Chief Executive, the committee cannot be said to be fully independent of management. However, in practice, there are a number of ways to strengthen the committee's actual and/or perceived independence, as listed below.

The independence of an FMA entity's Audit Committee will be strengthened by the appointment of one, and preferably more, external members.

Measures to strengthen an Audit Committee's independence

Measures to strengthen the committee's actual and/or perceived independence include:

- the appointment of an external Chair. An external Chair can perform his or her role unencumbered by any management responsibilities and provides the opportunity for the Chief Executive/Board to receive advice and assurance from an independent perspective;
- the appointment of more than one external member;
- the appointment of committee members who exhibit an independence of mind in their deliberations and do not act as a representative of a particular area within the entity;
- having a rotation policy for Audit Committee members to enable new knowledge and experience to be introduced periodically to the committee and to allow the opportunity to include members from different parts of the entity over time;
- ensuring that the Audit Committee itself has no management responsibilities. Members who are staff of the entity, however, will have individual management responsibilities; and
- having policies in place to facilitate timely identification of changing relationships or circumstances that may affect the independence of Audit Committee members.

Better practice tip: Audit Committee independence

The appointment of one, and preferably more, external members to the committee is the most visible and practical way to give substance to the principle of the committee being as independent as possible from the management of the entity.

In view of the committee's responsibilities, as a general rule the Chief Operating Officer, Head of Corporate, the Chief Financial Officer, the Chief Information Officer, or the Head of Internal Audit should not be members of the Audit Committee, but it may be appropriate for them to attend meetings as observers.

In CAC bodies, where an external board is accountable for the entity, greater independence from management can be achieved, both in substance and form, if the Audit Committee is comprised of a majority of or all non-executive directors,³² appointed by the Chair of the Board, after discussion with the full Board.

Ongoing support to members

To maximise members' contributions, particularly external members, support mechanisms should be in place to provide briefings and information on emerging business matters and risks. This may involve an increased commitment from internal Audit Committee members, the secretariat, and the entity generally.

Better practice tip: Audit Committee support

A committee should be provided with the appropriate support to assist in its effective operation.

Support mechanisms should be in place to provide Committee members with briefings on emerging business matters and risks.

There are a number of ways in which entities can support their Audit Committees, including providing:

- an adequate secretariat service, induction and ongoing training;
- funding for expert advice, as required;
- reports from other entity management committee meetings;
- support for senior line managers to attend Audit Committee meetings to discuss the business strategy, operations, and key risks for which they are responsible;
- assistance in arranging visits to business locations and attending planning and other management events; and
- appropriate meeting facilities and equipment.

³² The CAC Regulations allow the Audit Committee of Commonwealth authorities to include persons who are not directors of the authority and one person who is an executive director of the authority.

3.4 Induction of new Audit Committee members

The Audit Committee should have a formal process to induct new committee members that provides them with sufficient briefings and information to understand their responsibilities and the expectations of the Chief Executive/Board about their role and performance.

Audit Committees should have a formal induction process for new committee members.

The extent of each member's induction will vary depending on whether they are an internal or external member, their role (if any) within the entity and their particular knowledge and experience. As a minimum, all new members should be briefed by the Chief Executive/Board and the Chair of the Audit Committee and be introduced to the Chief Financial Officer, the Chief Information Officer, Head of Internal Audit and other senior managers and the external auditor.

The information provided to new members should be tailored to meet their individual requirements and can include the information listed below.

Information for new Audit Committee members

The available information for new committee members should include:

- an outline of the entity's governance framework and how the Audit Committee operates within that framework;
- the committee's charter and recent committee papers and minutes (including details of outstanding issues);
- copies of the entity's enabling legislation (where applicable), selected policies, such as Chief Executive's Instructions or equivalent, and a copy of the entity's most recent financial statements;
- the entity's annual report, corporate plan, code of conduct, business and risk management plans;
- a briefing (supported by relevant documentation) on the entity's risk management framework, control, compliance, audit and external accountability arrangements, as well as details of current issues related to those topics; and
- the internal audit charter, the strategic and annual internal audit plans, the committee's forward meeting schedule, and recent internal and external audit plans and reports.

Information provided to new members should be tailored to meet their individual needs.

When an external member joins the committee, it may be appropriate for more detailed information or presentations to be provided from various managers within the entity to assist the new member to gain the necessary understanding of the business. This could include site visits to assist in understanding the operations of the entity.

3.5 Continuing education of Audit Committee members

The Chair of the committee, in consultation with the Chief Executive/Board, should monitor the opportunities for further education of the committee and individual members in such areas as risk management, fraud control, program management, legal compliance, information management and security, and financial management and reporting.

Strengthening or updating the knowledge of the committee members may take a number of forms, such as:

- attendance at relevant seminars or courses;
- providing written material/guidance;
- presentations by the Chief Financial Officer, Chief Information Officer, Head of Internal Audit, and other senior managers; and
- discussions and presentations from internal and external audit.

Information and training provided to Audit Committee members should be tailored to the individual knowledge and expertise of the members and include developments in financial reporting as required by legislation, government requirements, and the accounting standards.

Better practice committees will periodically request presentations from management and/or subject-matter specialists on specific topics or developments to improve members' understanding of the entity, and support ongoing training requirements for committee members. Presentations may cover topics such as:

- entity governance arrangements;
- specific policy or program initiatives; and
- business initiatives and risks.

Information and training should be tailored to the individual knowledge and expertise of members.

3.6 Rotation of Audit Committee members

Rotation of committee members can be a useful means of introducing new perspectives to Audit Committee deliberations. It also enhances the opportunity for a greater number of board members or entity managers to gain an in-depth, first-hand understanding of the Audit Committee's responsibilities and the important role the committee plays in the entity's governance arrangements. The rotation of members is also an important vehicle for strengthening the independence of the committee.

It is important to balance stability with change in the membership of the committee to ensure there is consistency over time in its considerations, and to maintain a sufficient level of knowledge and experience on the committee.

Generally, an individual's tenure on the Audit Committee would be three years, with a one plus one year option, particularly for external members. Any extension of a member's tenure on the committee should be approved only after the Chief Executive/Board, as appropriate, has made an assessment of the member's performance as a committee member.

It is better practice for the Chief Executive/Board to adopt a phased approach to the rotation of members to preserve an appropriate level of knowledge and expertise of committee members. To lessen the impact of the loss of an experienced member, the committee may also wish to have new members join the committee before exiting members depart. As this would result in a temporary increase in the number of members, such an option should be provided for in the committee's charter.

A phased approach to member rotation can reduce the risk of a reduction in the committee's knowledge and skill base.

3.7 Transitional arrangements

In the public sector environment, with the possibility of changes to administrative arrangements and entity status, there is the potential that an Audit Committee may be replaced by a new committee, or that committee responsibilities may be transitioned to the Audit Committee of a new entity.

Where Audit Committee responsibilities are to be transferred to a new Audit Committee, it is the responsibility of the existing Chair to ensure that the status of all Audit Committee activity that may be relevant to the new committee is adequately documented and provided to the incoming committee. In particular, any outstanding matters of high risk to the entity and outstanding audit recommendations should be brought to the attention of the new committee.

It is the responsibility of the committee Chair to ensure that an appropriate handover of responsibilities occurs on the appointment of a new Chair. An outgoing Chair should ensure that the new Chair is sufficiently briefed to assume the role of Chair. In particular, the outgoing Chair should brief the new Chair on any significant outstanding matters arising from internal and external reports and any major emerging risks facing the entity. The outgoing Chair would also facilitate a discussion between the Chief Executive/Board and the new Chair.

4 Relationships with key stakeholders

An Audit Committee plays an important role in the governance structure of entities in both the public and private sectors. Chief Executives/Boards are placing greater reliance on Audit Committees to provide them with independent assurance and advice in the areas of risk, control, and compliance in particular.

The ANAO recognises that all public sector entities are different and each has its own particular governance, risk management and control structures, and supporting policies and processes. As such, the provision of assurance and advice is to be determined within the context of each entity's governance structure.

In FMA entities, the committee's membership is determined by the Chief Executive and the Chair can be a senior manager of the entity.

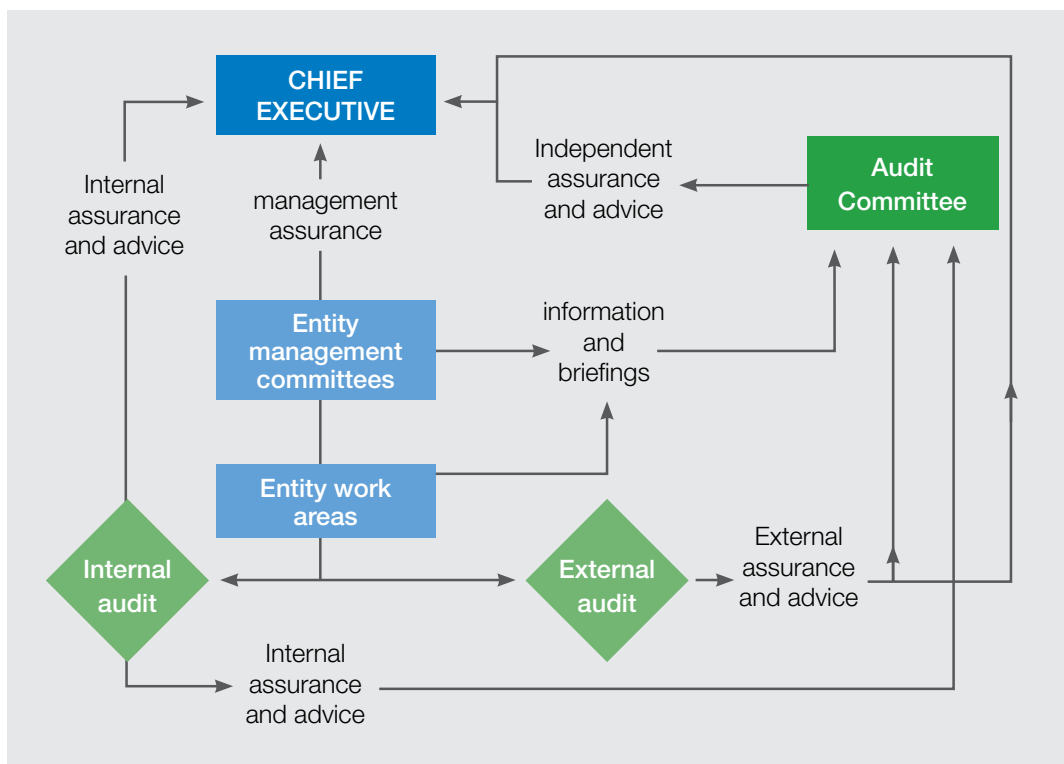
In CAC entities, the committee is a sub-committee of the Board, and the Chair must be a person other than the Chair of the entity or an executive director of the entity.

Both FMA and CAC entity Audit Committees are required to provide a forum for communication between the Chief Executive, the senior managers of the agency and the internal and external auditors of the agency.

For illustrative purposes, the following figure provides an example of the provision of assurance and advice in an FMA entity.

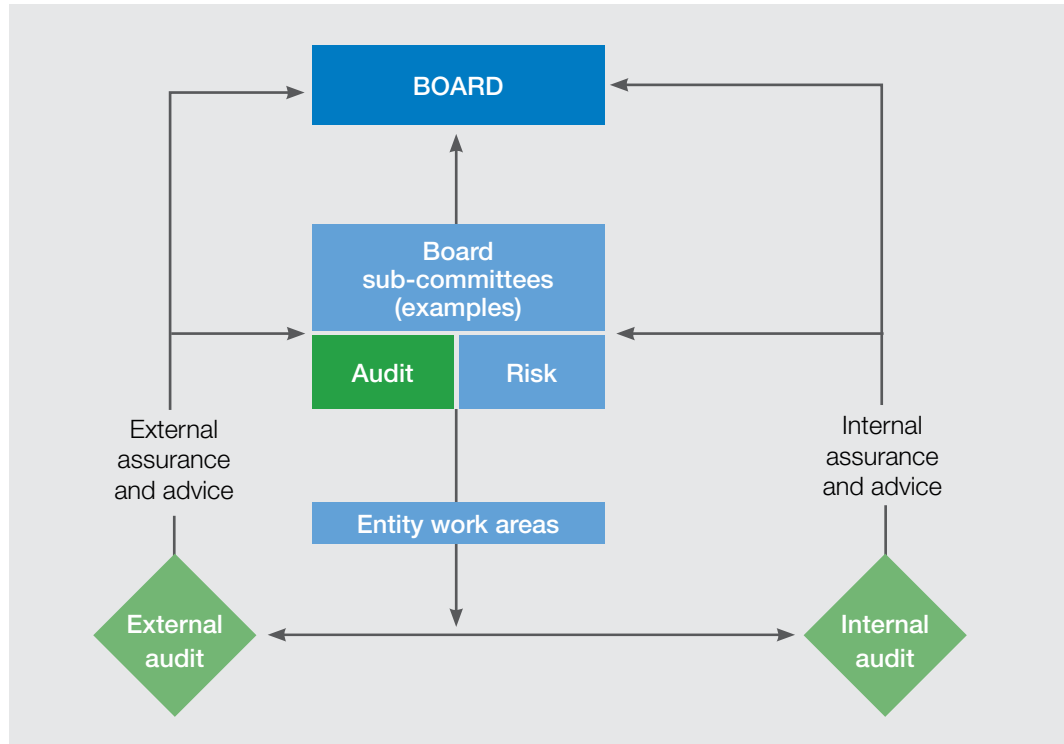
An Audit Committee plays an important role in an entity's governance structure in both the public and private sectors.

Illustration of provision of assurance and advice in an FMA entity



For illustrative purposes, the following figure provides an example of the provision of assurance and advice in a CAC entity.

Illustration of provision of assurance and advice in a CAC entity



It is important that Audit Committees have an effective relationship with the Chief Executive/ Board, senior management, management committees and internal and external audit.

Within an entity's governance structure the Audit Committee should establish and maintain effective relationships with key stakeholders who influence and inform the responsibilities and operations of the committee. To achieve this, Audit Committees develop and maintain relationships through the Audit Committee meetings, and through working with key stakeholders outside of committee meetings.

Key Audit Committee stakeholders are:

- the Chief Executive/Board;
- senior management including the Chief Financial Officer, Chief Information Officer, and Head of Internal Audit;
- management committees; and
- internal and external audit.

4.1 The Audit Committee and the Chief Executive/Board

The Chief Executive/Board has a key role in supporting the effectiveness of the Audit Committee, and establishing active support amongst senior management is vital to the success of better practice Audit Committees. As an Audit Committee is established to assist the Chief Executive/Board to discharge their responsibilities, it is important that the committee through its Chair has an effective relationship with the Chief Executive/Board and key stakeholders. The committee Chair should develop a sound working relationship with the Chief Executive/Board that builds the respect and confidence that allow for effective communication.

Better practice tip: Escalation of issues to the Chief Executive/Board

It is important that the Audit committee Chair:

- brings to the attention of the Chief Executive/Board high risk areas or issues that the committee considers are not being effectively managed; and
- provide advice to the Chief Executive/Board on key issues raised by internal audit, external audit or parliamentary committees.

Formal and informal reporting mechanisms should be in place with the Chief Executive/Board to facilitate the Audit Committee reporting on the committee's activities, key risk areas, and internal and external audit coverage. Reporting requirements should be summarised in the Audit Committee charter.

To meet its responsibilities under FMA Regulation 22C, the Audit Committee of an FMA agency should also prepare formal advice to the Chief Executive on:

- the agency's internal audit plans;
- the professional standards to be used by internal audit;
- any matter of concern, significant opportunities for improvement or good practices identified in internal and external audit reports;
- the preparation and review of the agency's financial statements; and
- any advice the committee has about the Chief Executive's obligations under the FMA Act.

For formal accountability purposes it is also expected that the committee would, at least once a year, report to the Chief Executive/Board on its operation and activities during the year. The report could include those matters listed below.

The Committee can request periodic briefings from the Chief Executive or Chair of the Board on strategic business developments.

Audit Committee report to the Chief Executive/Board

The committee's report could be expected to include:

- a summary of the work the committee performed to discharge its responsibilities during the preceding year. For example, its responsibilities for reviewing the financial statements and the Certificate of Compliance process for the entity for sign-off by the Chief Executive/Board;
- a summary of the committee's assessment of the entity's risk and control framework, including the entity's business continuity preparedness, disaster recovery, fraud control, information security, and details of emerging risks facing the entity;
- a summary of key issues the committee dealt with during the year, such as significant internal and external audit findings and recommendations, including a summary of the status of audit recommendations, any significant risk incidents and any breaches of legislation by the entity; and
- details of meetings, including the number of meetings held during the relevant period, and the number of meetings attended by each member.

The Audit Committee should be able to report to the Chief Executive/Board on any matter.

For many committees the most effective communication with the Chief Executive/Board is for the Audit Committee Chair to brief the Chief Executive or Chair of the Board following each committee meeting, which may be orally or in writing.

In recognition of the legislative requirement to establish an Audit Committee, consideration should be given to reporting the Audit Committee's activities in the entity's annual report. This could include membership details, and a summary of the main issues the committee addressed during the year.

Better practice tip: Audit Committee briefings

The Audit Committee will obtain periodic briefings from the Chief Executive/Board on strategic internal and external developments affecting the entity. The briefing could include details of issues such as emerging risks, significant projects or programs, restructuring plans, legislative changes and major policy developments.

The committee should be able to report to the Chief Executive/Board on any other matter it considers of sufficient importance to do so. In addition, at any time an individual committee member may request a meeting with the Chief Executive/Board.

4.2 The Audit Committee and senior management

To be effective, the audit committee must be independent from management and free from any undue influence. Members of the audit committee should not have any executive powers, management functions or delegated financial responsibility.³³

As Audit Committees are generally advisory in nature, the members' understanding of the difference between the responsibilities of the committee and the decision-making functions of management must be clear.

The approach the Audit Committee adopts in its interaction with senior management will have a direct bearing on the effectiveness of the committee. If the committee demonstrates a positive culture of continuous improvement, rather than a punitive culture, the committee is more likely to effectively fulfil its role.

The entity can contribute to a strong relationship with the Audit Committee by arranging for the external Audit Committee Chair to attend selected management meetings as an observer. This would assist the Audit Committee to maintain an up-to-date understanding of the entity. It can also assist the Chair to maintain constructive relationships with senior management. Attendance at such meetings is also an opportunity for the Chair to brief senior management on Audit Committee activities.

The Audit Committee can contribute to strong relationships with management by providing executive managers with a brief summary of the issues dealt with at each meeting, including details of actions to be undertaken by management. This simple process can heighten the visibility of the committee and be a practical way to demonstrate that the Chief Executive/Board take the responsibilities of the committee seriously.

It is important that senior managers have a good understanding of the Audit Committee's responsibilities. Entity managers should adopt an open and constructive attitude in their dealings with the committee as a whole and with individual members. They are to be forthcoming in identifying any areas of potential weakness or risk that could be considered in developing the internal audit plan, and be constructive when interacting with or addressing issues the Audit Committee or internal and external audit raise.

Better practice tip: The Audit Committee and senior management

A better practice Audit Committee will ask senior management to advise the committee on emerging significant risks and changes to the business.

The Audit Committee should be alert to opportunities for senior management representatives to attend meetings, to facilitate further discussion on action to implement audit recommendations, or to explain why any recommendation has not been addressed appropriately or in a timely way. Presentations or attendance by senior managers at an Audit Committee can be useful in building trust and effective communication links between the committee and management, particularly where the entity is managing significant risks and where internal and/or external audit have made significant recommendations. Presentations from senior management should align with the Audit Committee's responsibilities.

It is important that senior managers have a good understanding of the Audit Committee's responsibilities.

Presentations by senior managers can be useful in building trust and communication links with the committee.

³³ *Audit Committees A Guide to Good Practice*, The Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors of Australia, 2007, p. 9.

Follow-up of audit recommendations

An important responsibility of the Audit Committee is to review actions taken by management to implement internal and external audit recommendations. The action management takes should accord with the responses and timeframes documented in the audit reports that have been agreed by the entity and reviewed by the Audit Committee. One way the committee can effectively monitor management's implementation of audit recommendations is to have a standing agenda item requiring a listing of outstanding recommendations to be tabled at scheduled meetings. To assist the committee to assess management's performance in implementing audit recommendations, internal audit should maintain an appropriate process for monitoring and reporting on the status of agreed internal or external audit recommendations or agreed recommendations from parliamentary committees or other review bodies. Outstanding recommendations should be prioritised for action by the Audit Committee.

Better practice committees will arrange for officers responsible for implementing significant audit recommendations to attend committee meetings to enable the committee to obtain direct feedback on progress in implementing the recommendations.

Better practice committees will also ask management to review the findings of relevant ANAO cross-agency audit reports or other publications, such as better practice guides relevant to the entity, and to assess their own operations against the report's recommendations and better practice.

Where necessary, the Audit Committee should advise the Chief Executive/Board on action it considers necessary to address significant issues in internal and external audit reports. This can be done through a written report or summary provided to the Chief Executive/Board or through discussions between the Chief Executive/Board and the committee Chair.

Chief Operating Officer

Increasingly FMA agencies are establishing a position of Chief Operating Officer (COO) as a key member of the agency's executive management team. COOs are generally responsible for a broad range of administrative functions that will include matters such as risk management, legislative compliance and internal audit, that are within the purview of the agency's Audit Committee.

In these circumstances, there may be an inherent conflict of interest in the COO being a member of the Audit Committee. It is therefore better practice for the COO not to be a member of the Audit Committee but could be invited as an observer, to provide briefings to the committee on business developments.

Chief Financial Officer

The relationship between the Chief Financial Officer (CFO) and the Audit Committee is an important one in the context of the committee's financial statement and internal control responsibilities. The Audit Committee should put arrangements in place that provide for the CFO to advise the committee in a timely manner of all significant accounting and financial reporting issues that may affect the financial statements and the underlying systems of internal control, and for the committee to seek assurance that any such issues are being addressed in a timely manner. In addition, the Audit Committee can provide the CFO with advice and assistance on matters relating to the preparation of the entity's financial statements.³⁴

It is better practice for the CFO to be invited to attend Audit Committee meetings as an observer, rather than be a committee member.

³⁴ Further information on the relationship between the Audit Committee and the CFO is available in the ANAO's Better Practice Guide *Preparation of Financial Statements by Public Sector Entities*, June 2009. Available at <<http://www.anao.gov.au>>.

To avoid potential conflicts of interest it is better practice for the CFO to be invited to attend Audit Committee meetings as an observer, rather than as a committee member.

Chief Information Officer

Effective lines of communication are required between the Chief Information Officer (CIO) and the Audit Committee, as information and communications technology is an important part of the entity's business operations and will often be an area of risk requiring careful review. Ideally, the CIO will be able to clearly explain specialised information technology system matters to the committee, or a member will possess sufficient expertise to enable the committee to fully understand the CIO's advice and any potential implications.

To avoid a potential conflict of interest, it is better practice for the CIO to be invited to attend Audit Committee meetings as an observer, rather than as a committee member.

Head of Internal Audit

Establishing a sound working relationship with the Head of Internal Audit will assist the Audit Committee to meet its responsibilities, particularly those relating to internal audit that include reviewing internal audit plans and reports, and resourcing of the internal audit function.

It would be expected that the Audit Committee is consulted on the appointment of the Head of Internal Audit.

To avoid a potential conflict of interest it is better practice for the Head of Internal Audit to be invited to attend Audit Committee meetings as an observer, rather than as a committee member.

Establishing a sound working relationship with the Head of Internal Audit will assist the committee to meet its responsibilities.

4.3 The Audit Committee and other committees

The relationship between the Audit Committee and other committees in an entity's governance framework is important to enable the committee to effectively meet its responsibilities. For example, if an entity has a Risk Management Committee and/or an IT Steering Committee, the Audit Committee should be aware of the responsibilities and meeting outcomes of these committees. This would minimise the chance of the Audit Committee duplicating work done by the risk committee and/or identify gaps that require attention.

To facilitate the relationship between the Audit Committee and the work of the various management committees within an entity, it is important that there is a timely and free flow of information between the committees.

Better practice tip: Management committees

Clear communication protocols should be in place between the Audit Committee and other committees aimed at ensuring there is a common understanding of the respective responsibilities of each committee. Lines of communication between the Audit Committee and committees, as decided by the Chief Executive/Board, also need to be established to enable committees to share current and relevant information and operate in a cooperative and complementary manner.

It is important that there is a timely and free flow of information between the Audit Committee and management committees.

Better practice Audit Committees will have formal mechanisms to facilitate such an exchange of information. These mechanisms could include:

- periodically obtaining briefings from representatives of other committees; and/or
- having the minutes of each management committee distributed to the other committees as a standing item on each committee's agenda.

4.4 The Audit Committee and internal audit

Internal audit reports should provide the Audit Committee with a key source of information on the entity's performance.

The relationship between the Audit Committee and internal auditors is central to enabling the committee to meet its responsibilities. As such, the relationship between the Head of Internal Audit and the Committee is an important one. Internal audit is functionally responsible to the Audit Committee and works to the committee through its Head.

Reports by internal audit provide the Audit Committee with a key source of information on the entity's performance. Maximising the value of internal audit requires that open lines of communication are established and maintained between internal audit and the committee.

Strategic and Annual Internal Audit Work Plans

The Audit Committee should review and provide advice to the Chief Executive/Board on the adequacy of Strategic and Annual Internal Audit Work Plans.³⁵

The nature of the Internal Audit Strategic Audit Plan will be commensurate with the size and complexity of each entity, as well as the entity's risk profile, and the extent of the entity's investment in the internal audit function. In developing this plan consideration should be given to the entity's goals and objectives, internal and external risks, the work of other review activities or functions, stakeholder expectations and internal audit business objectives and management strategies. There should be sufficient flexibility in the Internal Audit Strategic Audit Plan to accommodate additional audits that the Chief Executive/Board may commission from time to time.³⁶ The Annual Internal Audit Work Plan should be reviewed periodically by the Audit Committee to re-confirm the relevance and priority of audit topics.

Internal audit plans should be reviewed periodically to re-confirm their relevance and the priority of audit topics.

Better practice tip: Audit Committee and Annual Internal Audit

Audit Committees should be alert to the need to vary, at short notice, the internal audit work plan to enable internal audit to review programs or activities of emerging high risk to the entity.

Where the internal audit function is outsourced, particular attention should be given to potential conflicts of interest when considering the appointment of a service provider or the proposed Internal Audit Strategic Audit Plan. It is important to fully consider any restrictions placed on the scope of audit coverage, and to help the committee gauge the level of coverage of particular areas over time the committee would consider previous audit activity in the areas identified for audit.

³⁵ FMA Regulation 22C(4)(e) provides for FMA Audit Committees to advise the Chief Executive on internal audit plans.

³⁶ Contents of a better practice Internal Audit Strategic Audit Plan are outlined in the ANAO's Better Practice Guide *Public Sector Internal Audit*, ANAO, September 2007. Available at <<http://www.anao.gov.au>>.

Once approved, the Audit Committee should consider the mechanisms for communicating the approved plan to relevant stakeholders, including the Chief Executive/Board and senior management. Entities might consider placing the approved Internal Audit Strategic Audit Plan on their intranet to make it available to all stakeholders and staff.

On an ongoing basis during the year, the Audit Committee would review internal audit's progress in carrying out the approved work program. This review would take into consideration:

- reasons for any adjustments to the scope of the review, particularly when requested by the Chief Executive/Board; and
- changes to the timing of assignments and reasons for any delays against the approved timetable.

Internal audit resourcing

An important responsibility of the Audit Committee is to be satisfied that there are sufficiently skilled internal audit resources available to undertake the approved internal audit work program, including providing support for, and input to, the committee. Consideration of internal audit resources would include a periodic review of the model of internal audit the entity uses, that is, in-house, outsourced or co-sourced, and the range of resources required, to assess whether they are appropriate for the entity. Considerations would include the Internal Audit Strategic Audit Plan and the audits required to be conducted.

If the committee decides that internal audit resources are not adequate, the Chair of the Audit Committee should formally raise the committee's concerns with the Chief Executive/Board.

Where the internal audit function is outsourced, it would be expected that the committee would provide input to the statement of requirements developed as part of a tender process and provide advice on the appointment of the service provider. In particular, the committee should be alert to any potential conflicts of interest involving possible service providers. Where internal audit is provided in-house, the committee would be expected to contribute to the selection process of the Head of Internal Audit, particularly in determining the qualities expected of the appointee.

Internal audit reports

In addition to regular, informal communication between internal audit and the Audit Committee, the committee should receive regular reports, in an agreed format, from internal audit on the results of their work. This should include management's response to internal audit recommendations and other suggestions for improvement. Responses from management should be clear and concise and should include:

- whether management agrees or disagrees with the finding and recommendation. If there is disagreement, identify the reasons; and
- identifying the specific position or work area responsible for implementing the recommendation; a brief outline of the action to be taken; and the timeframe for implementation.

It is important the Audit Committee is satisfied that there are sufficiently skilled internal audit resources available to undertake the internal audit work program.

The Audit Committee should receive regular reports from internal audit on the results of their work.

It is better practice for the Audit Committee to periodically meet privately with internal audit.

Audit Committee members-only session with internal audit

It is better practice to have a private session with internal audit, at a scheduled meeting(s) during the year that provides an opportunity for the committee to raise issues, ask questions and seek feedback from the internal auditor without management present. This supports the recognition of the independent role of internal audit.

Part 3 includes a checklist of matters the Audit Committee may wish to discuss with internal audit at this session (pages 105 to 107).

Review the performance of internal audit

Each year the Audit Committee should review the performance of internal audit. The Audit Committee should also commission a periodic external review of internal audit.³⁷

4.5 The Audit Committee and external audit

External auditor independence in the public sector does not present the same challenges for an Audit Committee in the private sector, given the legislative requirements supporting the independence of external audit.³⁸

To have an effective relationship between the Audit Committee and external audit, there should be a mechanism in place to facilitate an open and frank exchange of information between committee members and external audit throughout the year. Audit Committee members should be in a position to be able to openly discuss matters of interest in a sensitive manner with the external auditors in any areas covered by the Committee's functions.

External audit coverage

The Audit Committee should be briefed on the proposed external audit coverage and fully consider:

- the financial statement areas of audit focus, the assessment of entity risks, and associated fees (where applicable);
- proposed performance audit coverage;
- any potential overlap with internal audit coverage; and
- the impact on internal entity resources and management effort.

It is expected that the Audit Committee would review all substantive correspondence from external audit about planned audits, audits in progress, and completed audits, and extend a standing invitation for the external auditor to be present at each committee meeting for all agenda items (with the exception of members-only sessions that the Committee may hold periodically). Being present at each meeting as an observer allows the external auditor to obtain a better understanding of an entity's operations and risks and, among other things, enables external audit to provide a status report on audit activity and to provide input for the committee's deliberations.

There should be an open and frank exchange of information with external audit.

³⁷ Standard 1312 of the International Standards for the Professional Practice of Internal Auditing requires external assessments to be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation.

³⁸ The external audit function for FMA and CAC entities is the responsibility of the Auditor-General as provided for by the *Auditor-General Act 1997*.

The Audit Committee should obtain a briefing from external audit on the results of their audit of the financial statements. The committee should also be briefed periodically on the results of any performance audits or assurance reviews undertaken.

Where external audit utilises the services of a third party service provider, an Audit Committee may wish to consider the steps necessary to gain assurance that there is no conflict of interest with respect to the work undertaken by a third party service provider. In some cases, this could include the Chair, or other nominated member, attending presentations by tenderers during the tender process. Audit Committees should also obtain periodic assurance that any new contractual arrangements between the entity and the third party service provider do not result in conflicts of interest.

Each year, the Audit Committee should review its relationship with external audit and any third party service provider engaged by external audit. The review should include providing feedback on the service provided, and on the effectiveness of communication and reporting between external audit, the committee, internal audit and management.

Audit Committee members-only session with external audit

It should be standard practice for the external auditor to meet alone with the committee members at least once a year.

Having a private session with external audit representatives provides an important opportunity for the committee to raise issues, ask questions and seek feedback from external audit without internal audit or management observers present.

Part 3 includes a checklist of matters the Audit Committee may wish to discuss with external audit at this session (page 109).

External audit representatives should have a standing invitation to attend Audit Committee meetings for all agenda items.

5 Conduct of the Audit Committee

The operation of an Audit Committee will be enhanced by: having an effective Chair; the committee being supported with appropriate secretariat arrangements; meetings being well planned and conducted efficiently; committee members having appropriate access to entity staff and information; and actual and potential conflicts of interest being effectively managed.

Efficiencies can also be achieved in some circumstances if small agencies are able to meet their legal obligations by utilising the members and support services of larger Audit Committees.

In managing Audit Committee activities, it is important for entities to meet all relevant legislative and policy requirements, particularly in relation to the appointment of external members.

5.1 The role of the Chair in the conduct of the Audit Committee

The Chair plays a pivotal role in the effective functioning of any committee, with particular responsibilities to set the tone and direction of the committee's deliberations.

The chairperson is the most important appointee. The chairperson needs to have expertise and experience in governance and to bring personal qualities and independence to the role that will openly and effectively involve all those the Audit Committee needs to work with.³⁹

The Chair plays a pivotal role in the effective functioning of an Audit Committee.

Audit Committee Chair responsibilities

The Audit Committee Chair's responsibilities will generally be to:

- recommend to the Chief Executive/Board the appointment of Audit Committee members;
- assist committee members to maintain a good understanding of the entity's objectives, business needs, risks and priorities;
- settle the agenda for each meeting with the committee secretariat;
- lead discussion and encourage the participation of other members, and focus the committee's deliberations on the most important issues;
- seek the input of observers or other experts to maximise their contribution to the deliberations of the committee;
- summarise discussion outcomes and actions, including assigning responsibility and timeframes for actions;
- report formally and informally to the Chief Executive/Board;
- attend formal and informal meetings with senior management, the Chief Financial Officer, the Chief Information Officer, the Head of Internal Audit and external audit as required; and
- arrange for a periodic review of the effectiveness of the Audit Committee against its charter.

³⁹ *Audit committees in the public sector*, Controller and Auditor General, New Zealand, March 2008, p. 52. Available at <<http://www.oag.govt.nz>>.

To be effective, it is important that the Audit Committee operates in an environment of co-operation and trust. This is generally achieved when the Audit Committee Chair promotes an open and cooperative relationship with senior management, other entity committees, and the internal and external auditor.

Part 3 includes a discussion checklist that the Audit Committee Chair may wish to use in discussions with the Chief Executive/Board (page 112).

5.2 Committee secretariat

It is important that the Audit Committee is appropriately supported by effective secretariat arrangements. It is expected that the secretariat work closely with the Chair to assist in ensuring that:

- all committee papers are of an appropriate standard and are available to committee members sufficiently in advance of meetings to allow members appropriate timeframes for review and consideration;
- minutes are maintained of committee meetings; and
- members are kept abreast of key developments in the entity.

Secretariat responsibilities would generally include:

- liaising with the committee Chair to prepare meeting agendas;
- coordinating the preparation and circulation of committee papers within agreed timeframes;
- preparing minutes of committee meetings, including action points arising from meetings and details of actions to be undertaken by management;
- supporting the Chair in the preparation of Audit Committee reports to the Chief Executive and/or the Board;
- maintaining a record of when members' terms of appointment are due for renewal or termination;
- ensuring that new members receive appropriate induction training, and that all members are supported in identifying and participating in ongoing training; and
- managing expenditures relating to the Audit Committee's operations.

The secretariat also has an important role in assisting the Audit Committee to maintain communication channels between the internal and external auditors and to assist the committee in keeping the Chief Executive/Board informed of the Audit Committee's activities.

The secretariat can also assist the Audit Committee by providing members with progress reports from internal and external audit, as outlined below:

It is important that the Audit Committee is appropriately supported by effective secretariat arrangements.

- A progress report from the Head of Internal Audit summarising:
 - > work performed (and a comparison with work planned);
 - > key issues emerging from internal audit work;
 - > significant changes to the organisation's Risk Register;
 - > management responses to audit recommendations; and
 - > any resourcing issues affecting the delivery of internal audit.
- A report from external audit summarising work done—financial statements, performance audits, cross-agency audits, better practice guides—and emerging findings.

5.3 Audit Committee planning

The preparation of a forward meeting schedule that includes the dates, location, and agenda items for each meeting, and covers all the committee's responsibilities as outlined in the committee's charter can assist the meeting in undertaking these responsibilities in a structured and timely manner.

Some committees see benefit in arranging a separate planning meeting at which the work of the committee for the next 12 months can be discussed, priorities identified through discussions with relevant entity managers, and any changes to the committee's functions and responsibilities identified.

Better practice tip: Audit Committee forward meeting schedule

Where possible, the dates for Audit Committee meetings should be established 12 months in advance, in recognition of the other commitments of committee members and entity staff. Some committees find it useful to make it a 'rolling' plan that includes regular updates to keep a '12 month' view in constant consideration.

Part 3 includes a proforma Audit Committee forward meeting schedule (page 113).

5.4 Audit Committee meetings

Number and timing of meetings

Audit Committee meetings are generally spread across the year with one meeting timed to match the entity's financial statements timetable. While the number of meetings and their duration will vary depending on the range and complexity of the committee's responsibilities, it would be expected the committee would meet at least four times a year, together with a special meeting to consider the entity's financial statements. Committees are increasingly seeing this meeting schedule as a minimum requirement in an environment where Chief Executives/Boards are seeking a greater level of assurance and advice from Audit Committees, combined with the increasing complexity of entity responsibilities. Committees should carefully consider whether they have scheduled sufficient meetings to ensure they are able to fully discharge their responsibilities. For example, where significant issues arise during the year in relation to high risk programs or activities for which the committee has review responsibilities, committees should consider the benefits of scheduling additional meetings.

Audit Committees benefit from having a current forward meeting schedule.

The number and duration of committee meetings will depend on the range and complexity of the committee's responsibilities.

Better practice tip: The work of the Audit Committee

The work of the Audit Committee is more than attending committee meetings. Important work is often done outside committee meetings by committee members working with key stakeholders on issues relating to the committee's responsibilities.

The Audit Committee charter should require the Chair of the committee to hold a meeting if asked to do so by the Chief Executive/Board, and for the Chair to decide if a meeting is required if requested by another member. It may at times be appropriate to deal with issues out-of-session to keep committee meetings focused.

Attendance at meetings

Generally, committee members would not be permitted to send proxies if they are unable to attend meetings.

It is expected that internal and external auditor representatives will be invited to participate in all agenda items at each committee meeting as observers. The committee may also ask management representatives to attend committee meetings for particular agenda items.

As the Chief Executive/Chair of the Board would not be expected to be on the committee, they may be invited to attend committee meetings to participate in specific discussions or provide strategic briefings. Some committees provide the Chief Executive/Chair of the Board with a standing invitation to attend committee meetings.

As committee members should be appointed for their particular skills and experience, it is generally accepted that members not be permitted to send proxies if they are unable to attend meetings. However, arrangements may be required to address circumstances where management representatives on the committee are absent for lengthy periods or act in positions that would generally exclude them from membership.

Quorum

A quorum should consist of a majority of committee members. In committees which have more than one external member, particularly in FMA entities, it is better practice for a quorum to include at least one external member.

In CAC entities the quorum for meetings of the Audit Committee is two persons or if the majority of the committee is greater than two persons, then that number of persons.

Meeting agenda

Important and/or contentious matters should be discussed ahead of more routine business.

Audit Committee meetings should be well structured and managed. The efficient running of each meeting can be assisted by:

- the Audit Committee Chair approving the agenda;
- the agenda ensuring important and/or contentious matters being discussed ahead of more routine business;
- the meeting starting and finishing on time;
- members agreeing the priority to be devoted to each agenda item at the commencement of each meeting;
- each member being able to be briefed before each meeting by the secretariat on the major issues to be discussed; and
- meeting papers being prepared and presented in an agreed form.

Some committees find it beneficial to set time aside before each meeting for the Audit Committee members to discuss the agenda and any issues they wish to discuss in more depth with management. This ‘committee-only’ time also allows Audit Committee members to discuss issues with other members before management representatives and other observers join the meeting.

As discussed previously, it is important that the Chair and other committee members interact with senior managers outside committee meetings so that an entity can benefit from advice and insights that committee members can provide, and to assist committee members in keeping abreast of business developments.

Minutes of Audit Committee meetings

Minutes of Audit Committee meetings should be clear and concise, providing a summary of the outcomes and actions with clear responsibilities and timeframes attached. Draft minutes should be distributed to the Chair within one week of the meeting for clearance, and to committee members within two weeks of the meeting. In addition to the minutes, and as mentioned in section 5.2 above, it is good practice for the Audit Committee to provide the Chief Executive/Board with a brief summary of the issues dealt with at each meeting including details of actions to be undertaken by management.

In CAC entities, it is good practice for Audit Committee minutes to be circulated with the papers of the next Board meeting and for the Chair of the Audit Committee to provide an update to the Board on their contents. In FMA entities, the minutes should be provided to the Chief Executive and, where there is an Executive Board, to members of the Board.

Part 3 includes a meeting preparation checklist (page 112).

5.5 Managing conflicts of interest

To strengthen the Audit Committee’s actual and perceived independence, the committee should develop protocols for dealing with actual or perceived conflicts of interest.

These protocols could include the following arrangements:

- each year, members of the Audit Committee declare potential, perceived or real conflicts of interest they may have in relation to their role, and be required to update them regularly during the financial year. External members should consider past employment, consultancy arrangements and related party issues; and
- at the beginning of each Audit Committee meeting, members should raise any conflict of interest issues and, where required, the member should be excused from the meeting for the relevant agenda item(s).

Where members or observers at Audit Committee meetings are deemed to have a real or perceived conflict of interest it may be appropriate that they are excused from committee deliberations on the issue where a conflict of interest exists. Details of potential or actual conflicts of interest declared by members and action taken should be appropriately minuted.

These protocols should help reinforce the importance of committees identifying and managing, where necessary, actual and potential conflicts of interest.

It is important that the Chair and other committee members interact with senior managers outside committee meetings so that an entity can benefit from advice and insights that committee members can provide.

5.6 Access to staff and information

All members should be given the authority to access entity staff and information that is relevant to the committee's responsibilities.

The Audit Committee charter should provide the committee and individual members, where agreed by the Chair, with the authority to access entity staff and information held by the entity that is relevant to the committee's responsibilities. In exercising this authority, the committee and individual members should at all times be alert to the risk of interfering in the executive authority of management. In practice, the requirement to separately access staff and information would be expected to be on an exception basis.

To enhance the committee's independence and its capacity to obtain a full appreciation of relevant issues, the Audit Committee charter would also be expected to authorise the committee to seek independent professional advice, as and when required.

5.7 Audit Committee arrangements in small entities

A number of FMA and CAC entities required to establish an Audit Committee are very small, some employing less than 10 staff. There can be practical difficulties associated with such entities establishing a viable and effective Audit Committee. There may be merit in these entities exploring ways of entering into contractual or other cooperative arrangements with other entities within their portfolio to meet, in a cost-effective way, their legislative obligation to establish an Audit Committee. This could be done, for example, by sharing members and support services with another committee.

In circumstances where a committee acts as an Audit Committee for more than one entity, it is important that each committee has its own charter and membership and separate minutes be kept for each committee and provided to the Chief Executive of each entity. These arrangements will provide evidence of compliance with section 46 of the FMA Act. The committee should also consider if any issues regarding potential conflicts of interest arise as a result of sharing information among entities.

For example, the audit committee arrangements could involve:

- the Audit Committee of the large entity (entity A) having as the last agenda item the Audit Committee meeting for the small entity (entity B);
- attendance for this agenda item including one or more members appointed by the Chief Executive of entity B, together with observers;
- one or more members and observers of entity A leaving the meeting (Note: it would be preferable if the Chair remained the same person for both committee meetings);
- the Chair of the Audit Committee formally closing the meeting for entity A and opening the meeting for entity B; and
- the secretariat preparing separate minutes for both audit committees and distributing them to members of each committee.

There may be merit in small entities exploring alternative ways to meet their Audit Committee responsibilities.

5.8 Contractual arrangements and remuneration

When procuring the services of external members of the Audit Committee, FMA entities must comply with the Commonwealth Procurement Guidelines and CAC entities must comply with the *Finance Minister's (CAC Act procurement) Directions 2009*, where applicable.

When accepting an appointment to serve on an Audit Committee, external members should ensure that the contractual arrangements established clearly outline their role and the terms and conditions of their appointment. This should include any requirements relating to hours to be worked, indemnity insurance, signing of conflict of interest declarations, remuneration and any specific requirements, so members fully understand their obligations.

External committee members should be remunerated at a level that reflects the time it takes to effectively meet their responsibilities. Allowance should be made for the particular skills and expertise the member will bring to the committee, and the time required for meeting preparation and attendance at meetings and interaction with management outside committee meetings. Recognition should also be made for the additional responsibilities of the Chair.

Better practice tip: Remuneration

Remuneration for Audit Committee members should be based on the level of each member's experience, the complexity of the committee's responsibilities and the expected time required to meet each member's responsibilities.

External Committee members should be remunerated at a level that reflects the time it takes to effectively meet their responsibilities

Insurance arrangements

When considering the issue of external members' professional indemnity insurance cover, entities would be expected to take into account the generally advisory nature of the committee and any risks to the entity of relying on the advice or actions of an individual member, as distinct from the committee as a whole.

In this regard, it would be important to recognise that the advice provided to an entity and the exercise of certain functions such as the signing of committee minutes and the provision of a report to the Chief Executive is in a person's capacity as a member of the Audit Committee, rather than as an individual.

Where an entity intends to seek advice from an external member in their individual capacity, independently from their role as a member of the Audit Committee, such arrangements should be covered by separate contractual arrangements and insurance arrangements separately assessed.

6 Assessment of the Audit Committee's performance

A structured and formal evaluation of an Audit Committee's performance can help ensure the committee delivers on its charter and can help the committee continuously enhance its contribution to the Chief Executive/Board. The evaluation may be a self-assessment, with input from key stakeholders, or involve facilitation or review by an external party. Self-assessment is generally considered to be a sufficient method of evaluation for governance committees.

6.1 Audit Committee performance assessment

The performance assessment process should involve an assessment of the committee as a whole and may extend to an assessment of the performance of individual members.

A better practice committee will complete an assessment at least every two years to evaluate its performance against its charter and involve input from:

- the Chief Executive/Board on the quality and timeliness of assurance and advice provided by the committee;
- individual committee members on the effectiveness of the committee in meeting its responsibilities including planning, the decision-making process, and the relationship and quality of communication with stakeholders; and
- key stakeholders, for example, senior management, the Chief Financial Officer, the Chief Information Officer and external audit, on the effectiveness of the committee's stakeholder management.

A structured and formal evaluation of a committee's responsibilities can help ensure the committee meets its responsibilities.

Better practice tip: Assessment of the committee's performance

The Audit Committee may wish to select a person, such as the Head of Internal Audit, to coordinate the assessment. The committee secretariat could undertake this role, or the committee could engage an external person to assist with the assessment process.

The results of the assessment should be provided to the Chief Executive/Board, who should consider the findings and any recommendations of the assessment and, if required, ensure appropriate action is taken to enhance the committee's performance.

Assessment of an Audit Committee member's performance

In an FMA entity, consideration of an executive member's performance on an Audit Committee will, in practice, be undertaken as part of his/or her overall performance assessment.

It would be expected that the Chair of the Audit Committee would undertake a performance assessment of external members where an extension of the member's tenure is being considered, taking into consideration whether the member has:

- a good understanding of the entity's business;
- a good understanding of, and commitment to, the committee's responsibilities;
- displayed the ability to act objectively and independently and made a constructive contribution to the work of the committee; and
- displayed a willingness to devote the time required to prepare for, and participate in, committee meetings.

In CAC entities, the Chair of the Board would generally incorporate an assessment of the performance of non-executive members of the Audit Committee into their overall performance assessment.

Part 3 includes a pro forma Audit Committee self-assessment questionnaire (page 107).

The Chair should assess an internal member's performance when an extension of the member's tenure is being considered.

APPENDIX 1:

Application and terminology

For entities subject to the *Financial Management and Accountability Act 1997*⁴⁰ (FMA Act), responsibility and accountability for the entity rests with the Chief Executive, and for *Commonwealth Authorities and Companies Act 1997*⁴¹ (CAC) entities, responsibility and accountability for the entity rests with the Board.

Some entities have different governance structures, depending on the entity's particular enabling legislation or other instrument of appointment. These arrangements can include entities governed by a single Chief Executive or a Chief Executive together with a number of full or part-time appointees. The specific arrangements under which entities are constituted will, in turn, dictate their governance arrangements, including the composition and membership of the Audit Committee.

For the purpose of this Guide and for ease of presentation, the term 'Chief Executive' is used for entities where responsibility and accountability rests with an individual (such as for the majority of entities subject to the FMA Act). The term 'Board' is used for those entities where there is collective responsibility and accountability for the operations of the entity via a Board of Directors. In the latter case, it is assumed the Board will consist solely of, or have a majority of, non-executive members.

This Guide does not specifically address Australian Government companies as these have particular requirements under the *Corporations Act 2001*, although the principles and considerations outlined in the Guide will have general application to all Australian Government entities.

There are also a number of Australian Government bodies that are not subject to either the FMA or CAC Acts. These include statutory corporations and entities such as partnerships, joint ventures and trusts. The principles and considerations outlined in this Guide are also applicable to these bodies if they have established an Audit Committee within their governance framework.

40 FMA Act, Department of Finance and Deregulation. Available at <<http://www.comlaw.gov.au/comlaw/>>.

41 CAC Act, Department of Finance and Deregulation. Available at <<http://www.comlaw.gov.au/comlaw/>>.

APPENDIX 2:

Audit Committee legal status and legislative and policy requirements

Legal status of FMA and CAC Act entity Audit Committees

Audit Committees of FMA and CAC entities do not have their own legal identity and are generally advisory in nature. The Chief Executive/Board may delegate executive or decision-making powers to the committee, provided any such delegations comply with all relevant legal requirements for that delegation (for example, as specified in the FMA Act, or in the entity's enabling legislation). Any such delegations may, however, affect the role of the committee and its members, in particular the legal obligations of members who are managers of the entity, and the insurance requirements for external members.

An Audit Committee (and each of its members) should act only within the scope of the committee's specified functions and responsibilities and in accordance with any instruments of appointment, authorisation and delegation.

Audit Committee members are expected to exercise their powers and perform their functions with due care, skill and diligence and act in good faith in the best interests of the entity and for a proper purpose.

Audit Committee members are personally liable for any breach of their duties in respect of actions taken by them and may be held liable for a breach of their duties or legal obligations, and for contraventions of the general law. However, an Audit Committee member's potential liability, in respect of their committee duties, will generally be no greater than that:

- to which they would be subject in respect of their general duties within that entity (for a member that already holds another executive or non-executive position within the same entity); or
- to which they would be subject in the course of providing such services on a normal contractual basis (for an external committee member).

FMA agency audit committee legislative and policy requirements

Legislation	Requirements of the FMA Act and Regulations
FMA Act	<p>Section 46 of the FMA Act provides that:</p> <ol style="list-style-type: none"> 1. A Chief Executive must establish and maintain an audit committee with functions that include: <ol style="list-style-type: none"> a) helping the Agency to comply with obligations under this Act, the regulations and Finance Minister's Orders; and b) providing a forum for communication between the Chief Executive, the senior managers of the Agency and the internal and external auditors of the Agency. 2. The committee must be constituted in accordance with the regulations (if any).

Legislation	Requirements of the FMA Act and Regulations
FMA Regulations ⁴²	<p>FMA Regulation 22C states:</p> <p>Membership</p> <p>(1) A Chief Executive who is appointing one or more members of an audit committee must:</p> <ul style="list-style-type: none"> (a) have regard to: <ul style="list-style-type: none"> (i) the Agency's governance framework and assurance mechanisms; and (ii) the key risks to the Agency, including risks relating to program delivery and implementation; and (b) ensure that each member to be appointed has, in the Chief Executive's opinion, appropriate skills and experience to carry out the committee's functions, including the ability to advise the Chief Executive about how the Chief Executive can manage the key risks; and (c) ensure, as far as practicable, that the committee includes at least one member who is not an employee of the Agency (an external member). <p>(2) The Chief Executive must appoint a member of an audit committee (who may be an external member) as the Chair of the committee.</p> <p>(3) The Chief Executive must give an audit committee terms of reference that include particulars of:</p> <ul style="list-style-type: none"> (a) its functions; and (b) the frequency of its meetings; and (c) its membership. <p>Functions of audit committee</p> <p>(4) In addition to subsection 46 (1) of the Act, the functions of an audit committee include the following, unless the Chief Executive decides, in writing, that the committee is not to have a particular function:</p> <ul style="list-style-type: none"> (a) reviewing periodically the adequacy of the Agency's governance arrangements; (b) reviewing the operational effectiveness of the Agency's risk management framework; (c) reviewing the adequacy of the Agency's internal control environment; (d) reviewing the adequacy of the Agency's controls that are designed to ensure the Agency's compliance with legislation; (e) advising the Chief Executive about the internal audit plans of the Agency;

42 FMA Regulations, Department of Finance and Deregulation. Available at <<http://www.comlaw.gov.au/comlaw/>>.

Legislation	Requirements of the FMA Act and Regulations
	<ul style="list-style-type: none"> (f) advising the Chief Executive about the professional standards to be used by internal auditors in the course of carrying out audits in the Agency; (g) as far as practicable, coordinating work programs relating to internal and external audits; (h) reviewing the adequacy of the Agency's response to reports of internal and external audits; (i) reviewing the content of reports of internal and external audits, for the purpose of identifying material that is relevant to the Agency, and advising the Chief Executive about good practices; (j) advising the Chief Executive about action to be taken on significant matters of concern, or significant opportunities for improvement, that are mentioned in reports of internal and external audits; (k) advising the Chief Executive on the preparation and review of the Agency's financial statements; (l) providing any other advice to the Chief Executive about the Chief Executive's obligations under the Act. <p>(5) A Chief Executive may add to, or vary, the functions of an audit committee, having regard to:</p> <ul style="list-style-type: none"> (a) the Agency's governance framework and assurance mechanisms; and (b) the key risks to the Agency, including risks relating to program delivery and implementation.

Policy	Requirements of the Minister for Finance and Deregulation for FMA agencies
<p>Finance Circular No. 2009/06</p> <p><i>Certificate of Compliance – FMA Act agencies</i>⁴³</p>	<p>Chief Executives of FMA agencies are required to provide an annual Certificate of Compliance (CoC) to their portfolio minister and copied to the Minister for Finance and Deregulation, by 15 October each year.</p> <p>The CoC process requires the Chief Executive of an FMA agency to certify, having regard to advice provided by the agency’s internal control mechanisms, management and the Audit Committee, that the agency:</p> <ul style="list-style-type: none"> • has complied with the provisions of the FMA Act and Regulations; • has exercised the powers delegated by the Finance Minister in accordance with the delegation; • has complied with Australian Government requirements on foreign exchange risk management; • has complied with legal and financial requirements for the management of Special Accounts; • has complied with the financial management policies of the Commonwealth; • is operating within the agreed resources for the current financial year; and • has adopted appropriate management strategies for all currently known risks that may affect the financial sustainability of the agency.

CAC entity audit committee legislative and policy requirements

Legislation	Requirements of the CAC Act and Regulations and Procurement Directions
<p>CAC Act 1997</p>	<p>Section 32 of the CAC Act provides that:</p> <ol style="list-style-type: none"> 1. The directors of a Commonwealth authority must establish and maintain an Audit Committee with functions that include: <ol style="list-style-type: none"> a) helping the authority and its directors to comply with obligations under this Act; and b) providing a forum for communication between the directors, the senior managers of the authority and the internal and external auditors of the authority. 2. If the regulations state how the committee is to be constituted, it must be constituted in accordance with the regulations.

⁴³ Finance Circular No. 2009/06, *Certificate of Compliance – FMA Act agencies*, Department of Finance and Deregulation. Available at <<http://www.finance.gov.au>>.

Legislation	Requirements of the CAC Act and Regulations and Procurement Directions
CAC Regulations 1997 ⁴⁴	<p>CAC Regulation 6A provides that:</p> <p>(1) For subsection 32 (2) of the Act, the audit committee of a Commonwealth authority is to be constituted as follows:</p> <p>(a) the chair of the committee must be a person other than:</p> <ul style="list-style-type: none"> (i) the chair of the authority; or (ii) an executive director of the authority; <p>(b) the committee:</p> <ul style="list-style-type: none"> (i) must be made up of at least 3 persons; and (ii) may include only 1 person who is an executive director of the authority; and (iii) subject to subregulation (4), must not include senior managers or employees of the authority other than the executive director mentioned in subparagraph (ii). <p>(2) To avoid doubt, a committee may include persons who are not directors of the authority.</p> <p><i>Note</i> The chair of the committee may, for example, be a non executive director (other than the chair of the authority) or an external appointee of the authority.</p> <p>(3) The quorum for meetings of the committee is:</p> <ul style="list-style-type: none"> (a) 2 persons; or (b) if the majority of the committee is greater than 2 persons — that number of persons. <p>(4) The audit committee of the Australian Government Solicitor (AGS) may include members of the AGS Advisory Board.</p> <p><i>Note</i> The AGS is established under section 55J of the <i>Judiciary Act 1903</i>. The AGS Advisory Board is established under the corporate governance arrangements that apply to the AGS in accordance with section 55ZE of that Act.</p>

44 CAC Regulations 1997, Department of Finance and Deregulation. Available at <<http://www.finance.gov.au>>.

Policy	Requirements of the Minister for Finance and Deregulation for CAC entities
<p>Finance Circular No. 2008/05</p> <p><i>Compliance Reporting – CAC Act Bodies</i>⁴⁵</p>	<p>CAC Act bodies in the General Government Sector (GGS) must report on legislative compliance and financial sustainability to the Minister for Finance and Deregulation (Finance Minister) as well as the body's responsible Minister, by 15 October each year.</p> <p>The CoC process requires the directors of each GGS CAC Act authority and wholly owned company to certify, having regard to advice provided by the agency's internal control mechanisms, management and the Audit Committee, in their opinion:</p> <ul style="list-style-type: none"> (a) they and their body have complied with the provisions and requirements of the CAC Act, CAC Regulations and the Commonwealth Authorities and Companies (Report of Operations) Orders 2005 (CAC Orders)⁴⁶; and (b) the costs of the body are forecast to be within estimated sources of external receipts for the current financial year, including, where appropriate, estimates of revenue in the Australian Government's central budget system.

⁴⁵ Finance Circular No.2008/05, *Compliance Reporting – CAC Act Bodies*, Department of Finance and Deregulation. Available at <<http://www.finance.gov.au>>.

⁴⁶ As amended or replaced.

APPENDIX 3: Example of an assurance map for Audit Committee use

Entity business risks (taken from an entity's risk management plan)	Source and level of assurance provided ⁽¹⁾					Overall assessment of level of assurance ⁽³⁾	Is level of assurance adequate? Yes/No ⁽⁴⁾
	Work area ⁽²⁾	Work area ⁽²⁾	Management committees	Internal audit	Other assurance activities		
Failure to recruit, develop and retain sufficient skilled staff to sustain core service delivery at required levels.	low	moderate	(Human Resource Management) moderate	low	-	moderate	Yes
Failure to assess, monitor and appropriately manage key organisational requirements including resource and budget management in a changing business environment.	low	low	(Executive Board) moderate	moderate	(External review) low	moderate	Yes
Failure to adequately manage the entity's complex contractual arrangements	low	moderate	(Executive Board) moderate	Low	-	moderate	No
Ineffective and/or inappropriate management of information.	low	low	(Information Management) moderate	moderate	-	moderate	Yes
Diminished stakeholder confidence, loss of confidence by the minister or government.	moderate	low	(Executive Board) moderate	low	-	moderate	No
Failure to comply with legislative requirements.	moderate	low	(Executive Board) moderate	moderate	(Certificate of Compliance) high	high	Yes
Ineffective financial management	moderate	moderate	(Finance) moderate	moderate	(Audit Committee) High	high	Yes
Failure to work with or manage implementation partners.	moderate	low	(Executive Board) low	low	-	low	No
Unable to sustain efficient business processes and develop desired delivery solutions to meet business needs.	low	moderate	(Executive Board) moderate	low	-	moderate	No
Level of entity assurance and advice provided on the entity business risks —high, moderate, low. The level of assurance provided will depend on the extent to which the controls in place and other arrangements address the business risk.							

- (1) In identifying the source of an entity's assurance activities, it is important to recognise that the activities of external audit do not form part of an entity's control framework.
- (2) The term 'work area' is used to describe a major organisational unit such as a division or business unit.
- (3) The level of assurance obtained will depend on the adequacy of management controls in place to manage particular business risks. The overall assessment of controls can range from management judgement to being supported by more formal arrangements, such as control self-assessments, or internal audits.
- (4) Where the level of assurance is not considered to be adequate, it is expected that the Audit Committee will take action designed to increase the level of assurance to an acceptable level, including providing advice to the Chief Executive/Board.

Model Audit Committee charter— FMA entity¹

Chief Executives and Audit Committees are encouraged to review their existing charters against this model taking into account each entity's particular circumstances including the range of factors outlined in Part 3 of this Guide.

The Chief Executive has established the Audit Committee in compliance with section 46 of the *Financial Management and Accountability Act 1997* (FMA Act) and Regulation 22C of the Financial Management and Accountability Regulations.

This charter sets out the committee's objectives, authority, responsibilities, composition and tenure, reporting and administrative arrangements.

Objective

The objective of the committee is to provide independent assurance and assistance to the Chief Executive (and the Executive Board) on [the entity's] risk, control and compliance framework, and its financial statement responsibilities.

Authority

The Chief Executive authorises the committee, within its responsibilities, to:

- obtain any information it requires from any employee or external party (subject to any legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- request the attendance of any employee, including the Chief Executive, at committee meetings; and
- obtain legal or other professional advice, as considered necessary to meet its responsibilities, at [the entity's] expense to a preapproved limit of \$XXX.

¹ In entities subject to the FMA Act, responsibility and accountability for the entity generally rests with the Chief Executive. However, entities such as Prescribed Agencies under the FMA Act may have different governance structures depending on the entity's particular enabling legislation or other instrument of appointment. These arrangements can include entities governed by a single chief executive or a chief executive together with a number of full or part-time appointees. The specific arrangements under which entities are constituted will, in turn, dictate their governance arrangements including the composition and membership of the Audit Committee.

Composition and tenure

The Audit Committee comprises [insert number or range] members, appointed by the Chief Executive.²

The Chief Executive will appoint the Chair of the committee.

The committee is authorised to appoint a Deputy Chair who will act as chair in the absence of the Chair.

The Chief Executive, Chief Financial Officer, Chief Information Officer, and Head of Internal Audit may attend meetings as observers, as determined by the Chair, but will not be members of the committee.

A representative of external audit will be invited to attend all meetings of the committee, as observer.

The members, taken collectively, will have a broad range of skills and experience relevant to the operations of [the entity]. At least one member of the committee will have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.

Members will be appointed for an initial period not exceeding three years. Members may be re-appointed after a formal review of their performance, for a further period not exceeding two years, unless otherwise agreed following discussions with the Chair.

Responsibilities

Risk management

- review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures for effective identification and management of the entity's business and financial risks, including fraud;
- determine whether a sound and effective approach has been followed in managing the entity's major risks including those associated with individual projects, program implementation, and activities³;
- assess the impact of the entity's enterprise risk management framework on its control environment and insurance arrangements;
- determine whether a sound and effective approach has been followed in establishing [the entity's] business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested;
- review the process of developing and implementing [the entity's] fraud control arrangements and satisfy itself the entity has appropriate processes and systems in place to detect, capture and effectively respond to fraud-related information; and
- review reports on fraud from the entity's Fraud Manager that outline any identified allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in the entity.

² The Audit Committee may have a temporary increase in the number of members as a result of staggering the rotation of members.

³ In exercising these responsibilities in particular, it is important that the committee's responsibilities be determined at the commencement of the program or activity, in consultation with those with line management responsibility for the program or activity.

Internal control

- review whether management’s approach to maintaining an effective internal control framework, including over external parties such as contractors and advisers, is sound and effective;
- review whether management has in place relevant policies and procedures, including Chief Executive’s Instructions or their equivalent, and that these are periodically reviewed and updated;
- determine whether the appropriate processes are in place to assess, at least once a year, whether key policies and procedures are complied with;
- review whether appropriate policies and supporting procedures are in place for the management and exercise of delegations;
- consider how management identifies any required changes to the design or implementation of key internal controls; and
- assess whether management has taken steps to embed a culture that promotes the proper use⁴ of Commonwealth resources and is committed to ethical and lawful behaviour.

Financial statements

- satisfy itself about the adequacy of key internal controls and that the financial statements are supported by appropriate management sign-off;
- review the financial statements and provide advice to the Chief Executive; (including whether appropriate action has been taken in response to audit recommendations and adjustments)⁵ and recommend their signing by the Chief Executive; and
- review the processes in place designed to ensure that financial information included in [the entity’s] annual report is consistent with the signed financial statements.

Legislative and policy compliance

- review the effectiveness of the system for monitoring [the entity’s] compliance with those laws, regulations and associated government policies that the entity must comply with;
- review, where relevant, the entity’s compliance with International Conventions, particularly the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions;⁶
- determine whether management has appropriately considered legal and compliance risks as part of the entity’s enterprise risk management plan; and
- provide advice to the Chief Executive regarding the issue of the entity’s annual Certificate of Compliance Report.⁷

4 The FMA Act, s.44, Promoting proper use etc. of Commonwealth resources, states that: ‘A Chief Executive must manage the affairs of the Agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible’. Proper use is defined as: ‘efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth’.

5 The FMA Regulations require the Audit Committee to provide advice to the Chief Executive on the preparation and review of financial statements of the agency.

6 In line with this convention, the Australian Parliament has enacted the *Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999*.

7 Chief Executives of FMA agencies are required to provide an annual Certificate of Compliance to their portfolio minister and copied to the Minister for Finance and Deregulation, by 15 October each year.

Internal audit

- act as a forum for communication between the Chief Executive, senior management and internal and external audit;
- review the proposed internal audit coverage, ensure the coverage is aligned with [the entity's] key risks, and recommend approval of the Annual Work Plan by the Chief Executive;⁸
- advise the Chief Executive on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit work plan;
- coordinate the audit programs conducted by internal audit and other review functions⁹;
- review all audit reports and provide advice to the Chief Executive on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice¹⁰;
- monitor management's implementation of internal audit recommendations;
- periodically review the internal audit charter to ensure appropriate authority, access and reporting arrangements are in place;
- periodically review the performance of internal audit; and
- provide advice to the Chief Executive on the appointment of the Head of Internal Audit (in the case of an in-house internal audit function) and/or recommend to the Chief Executive the appointment of the internal auditor where outsourced or co-sourced.

External Audit

- act as a conduit for communication between the Chief Executive, senior management and external audit;¹¹
- provide input and feedback on financial statement and performance audit coverage proposed by external audit, and provide feedback on the audit services provided;
- review all external audit plans and reports¹² in respect of planned or completed audits and monitor management's response and implementation of audit recommendations¹³; and
- provide advice to the Chief Executive on action to be taken on significant issues raised in relevant external audit reports or better practice guides.

8 FMA Regulation 22C requires the Audit Committee to advise the Chief Executive about the internal audit plans of the Agency.

9 FMA Regulation 22C requires the Audit Committee to coordinate, as far as practicable, the work programs relating to internal and external audit.

10 The FMA Regulations require the Audit Committee to review all audit reports involving matters of concern to senior management of the agency, including the identification and dissemination of good practices; and provide advice to the Chief Executive on action to be taken on matters of concern raised in a report of the internal auditors or in a report of the Auditor-General concerning the agency.

11 See s46(1)(b) of the FMA Act.

12 This should include being advised of the implications for the entity of audit recommendations and guidance arising from such things as cross-agency audits and better practice guides.

13 FMA Regulation 22C requires the Audit Committee to review all audit reports involving matters of concern to senior management of the agency, including the identification and dissemination of good practices.

Governance arrangements

- periodically review, [the entity's] governance arrangements or elements of the arrangements as determined by the Chief Executive and suggest improvements, where appropriate, to the Chief Executive.

Other responsibilities

Portfolio responsibilities:

- satisfy itself that appropriate mechanisms are in place for the portfolio Chief Executive to be informed of all significant issues within the portfolio that may affect the portfolio responsibilities of the Chief Executive.

Parliamentary committee reports and external reviews:

- satisfy itself that the entity has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary committee reports and external reviews of the entity, and recommendations arising from these reports and reviews.

Performance reporting framework:

- satisfy itself that the entity has an appropriate performance reporting framework that meets government policy objectives and requirements and is linked to the agency's objectives and outcomes.

Sub-committees

The committee may establish one or more sub-committee/s to assist the full committee in meeting its responsibilities.

The responsibilities, membership and reporting arrangements for each sub-committee shall be documented and approved by the full committee. The committee stipulates that:

- a member of the full committee is appointed as Chair of the sub-committee; the membership of sub-committees could extend beyond members of the full committee if additional expertise on particular matters is required;
- minutes of all meetings of sub-committees are taken, distributed promptly to all members of the full committee, and tabled for discussion at the next full committee meeting; and
- important issues that may require consideration by the full committee are brought to the attention of the Chair immediately following a sub-committee meeting so that the Chair is in a position to decide what action to take.

Audit Committee sub-committees should not assume any management functions nor should management exert inappropriate influence over the work of sub-committees.

Responsibilities of committee members

Members of the committee are expected to understand and observe the legal requirements of the FMA Act and regulations. Members are also expected to:

- act in the best interests of the entity;
- apply good analytical skills, objectivity and good judgment;
- express opinions constructively and openly, raise issues that relate to the committee's responsibilities and pursue independent lines of enquiry; and
- contribute the time required to review the papers provided.

Reporting

The committee will as often as necessary, and at least once a year, report to the Chief Executive on its operation and activities during the year. The report should include:

- a summary of the work the committee performed to discharge its responsibilities during the preceding year;
- a summary of [the entity's] progress in addressing the findings and recommendations made in internal and external audit and parliamentary committee reports;
- an overall assessment of [the entity's] risk, control and compliance framework, including details of any significant emerging risks or legislative changes affecting [the agency]; and
- details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended.

The committee may, at any time, report to the Chief Executive any other matter it deems of sufficient importance to do so. In addition, at any time an individual committee member may request a meeting with the Chief Executive.

Administrative arrangements

Meetings

The committee will meet at least four times per year. A special meeting may be held to review [the agency's] annual financial statements.

The Chair is required to call a meeting if asked to do so by the Chief Executive, and decide if a meeting is required if requested by another member.

Planning

The committee will develop a forward meeting schedule that includes the dates, location, and proposed agenda items for each meeting for the forthcoming year, and that covers all the responsibilities outlined in this charter.

Attendance at meetings and quorums

A quorum will consist of a majority of committee members. Where there is more than one external member on the committee, a quorum will include at least one external member.

Secretariat

The Chief Executive, in consultation with the committee, will appoint a person to provide secretariat support to the committee. The secretariat will: ensure the agenda for each meeting is approved by the Chair; the agenda and supporting papers are circulated, at least one week before the meeting; and ensure the minutes of the meetings are prepared and maintained. Minutes must be reviewed by the Chair and circulated within two weeks of the meeting to each member and committee observers, as appropriate.

Conflicts of interest

Once each year, members of the Audit Committee will provide written declarations to the Chair for provision to the Chief Executive declaring any potential or actual conflicts of interest they may have in relation to their responsibilities. External members should consider past employment, consultancy arrangements and related party issues in making these declarations and the Chair should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.

At the beginning of each Audit Committee meeting, members are required to declare any potential or actual conflicts of interest that may apply to specific matters on the meeting agenda. Where required by the Chair, the member will be excused from the meeting or from the committee's consideration of the relevant agenda item(s). Details of potential or actual conflicts of interest declared by members and action taken will be appropriately minuted.

Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

Assessment arrangements

The Chair of the Audit Committee, in consultation with the Chief Executive, will initiate a review of the performance of the committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Chief Executive) with appropriate input sought from the Chief Executive, committee members, senior management, the internal and external auditors, Chief Financial Officer, and any other relevant stakeholders, as determined by the Chief Executive.

The Chair will provide advice to the Chief Executive/Board on an external member's performance where an extension of the member's tenure is being considered.

Review of charter

At least once a year the committee will review this charter. This review will include consultation with the Chief Executive.

Any substantive changes to the charter will be recommended by the committee and formally approved by the Chief Executive.

Approved

[Signature]

Chief Executive

Date

Model Audit Committee charter— CAC entity¹

Boards and Audit Committees are encouraged to review their existing charters against this model taking into account each entity's particular circumstances, including the range of factors outlined in Part 3 of this Guide.

The Board has established the Audit Committee in compliance with section 32 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) and Regulation [X] of the CAC Regulations.

This charter sets out the committee's objectives, authority, responsibilities, composition and tenure, reporting and administrative arrangements.

Objective

The objective of the committee is to provide independent assurance and advice to the Board on [the entity's] risk, control and compliance framework, and its financial statement responsibilities.

Authority

The Board authorises the committee, within its responsibilities, to:

- obtain any information it requires from any employee or external party (subject to any legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- request the attendance of a Director or any employee, including the Chief Executive, at committee meetings; and
- obtain legal or other professional advice, as considered necessary to meet its responsibilities, at [the entity's] expense to a preapproved limit of \$XXX.

¹ In the majority of CAC entities responsibility and accountability for the entity generally rests with a Board. However, some CAC entities have different governance structures depending on the entity's particular enabling legislation or other instrument of appointment. Some CAC entities are governed by a Chief Executive supported by a number of full or part-time appointees. The specific arrangements under which entities are constituted will, in turn, dictate their governance arrangements including the composition and membership of the Audit Committee.

Composition and tenure

The Audit Committee comprises [insert number or range] members, appointed by the Board.²

The Board will appoint a non-executive member as the Chair of the committee; normally a member of the Board.

The committee is authorised to appoint a Deputy Chair who will act as chair in the absence of the Chair.

The Chief Executive, Chief Financial Officer, and Chief Information Officer may attend meetings as observers, as determined by the Chair, but will not be members of the committee.

A representative of external audit will be invited to attend all meetings of the committee, as observer.

The members, taken collectively, will have a broad range of skills and experience relevant to the operations of [the entity]. At least one member of the committee will have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.

Members will be appointed for an initial period not exceeding [three]³ years. Members may be re-appointed after a formal review of their performance, for a further period not exceeding two years, unless otherwise agreed following discussions with the Chair.

Responsibilities

Risk management

- review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures for effective identification and management of the entity's business and financial risks, including fraud;
- determine whether a sound and effective approach has been followed in managing the entity's major risks including those associated with individual projects, program implementation, and activities⁴;
- assess the impact of the entity's enterprise risk management framework on its control environment and insurance arrangements;
- determine whether a sound and effective approach has been followed in establishing [the entity's] business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested;
- review the process of developing and implementing [the entity's] fraud control arrangements and satisfy itself the entity has appropriate processes and systems in place to detect, capture and effectively respond to fraud-related information; and
- review reports on fraud from the entity's Fraud Manager that outline any identified allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in the entity.

² The Audit Committee may have a temporary increase in the number of members as a result of staggering the rotation of members.

³ The period of appointment would be expected to be consistent with the appointment arrangements for the Board.

⁴ In exercising these responsibilities in particular, it is important that the committee's responsibilities be determined at the commencement of the program or activity, in consultation with those with line management responsibility for the program or activity.

Internal control

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisers, is sound and effective;
- review whether management has in place relevant policies and procedures, including Chief Executive's Instructions or their equivalent, and that these are periodically reviewed and updated;
- determine whether the appropriate processes are in place to assess, at least once a year, whether key policies and procedures are complied with;
- review whether appropriate policies and supporting procedures are in place for the management and exercise of delegations;
- consider how management identifies any required changes to the design or implementation of key internal controls; and
- assess whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

Financial statements

- satisfy itself that the financial statements are supported by appropriate management sign-off on the statements and on the adequacy of key internal controls;
- review the financial statements and provide advice to the Chief Executive; (including whether appropriate action has been taken in response to audit recommendations and adjustments to the draft financial statements) and recommend their signing by the Board; and
- review the processes in place designed to ensure that financial information included in the [entity's] annual report is consistent with the signed financial statements.

Legislative and policy compliance

- review the effectiveness of the system for monitoring [the entity's] compliance with those laws, regulations and associated government policies that the entity must comply with;
- review, where relevant, the entity's compliance with International Conventions, particularly the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.⁵
- determine whether management has appropriately considered legal and compliance risks as part of the entity's enterprise risk management plan; and
- provide advice to the Board regarding the issue of the entity's annual Compliance Report.⁶

5 In line with this convention, the Australian Parliament has enacted the *Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999*.

6 CAC Act bodies must report on legislative compliance and financial sustainability to the Minister for Finance and Deregulation and the body's responsible Minister, by 15 October each year.

Internal audit

- act as a forum for communication between the Board, senior management and internal and external audit;
- review the proposed internal audit coverage, ensure the coverage is aligned with [the entity's] key risks, and recommend approval of the Annual Work Plan by the Chief Executive;
- advise the Chief Executive on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit work plan;
- coordinate, as far as practicable, audit programs conducted by internal audit and other review functions;
- review all audit reports and provide advice to the Board on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice;
- monitor management's implementation of internal audit recommendations;
- review the internal audit charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place;
- periodically review the performance of internal audit; and
- provide advice to the Chief Executive on the appointment of the Head of Internal Audit (in the case of an in-house internal audit function) and/or recommend to the Chief Executive the appointment of the internal auditor where outsourced or co-sourced.

External audit

- act as a conduit for communication between the Board, senior management and external audit⁷;
- provide input and feedback on financial statement and performance audit coverage proposed by external audit, and provide feedback on the audit services provided;
- review all external audit plans and reports⁸ in respect of planned or completed audits and monitor management's response and implementation of audit recommendations; and
- provide advice to the Board on action to be taken on significant issues raised in relevant external audit reports or better practice guides.

Governance arrangement

- periodically review [the entity's] governance arrangements or elements of the arrangements as determined by the Board and suggest improvements, where appropriate, to the Board.

7 Section 32 of the CAC Act requires Audit Committees to provide a forum for communication between the directors, the senior managers of the authority, and the internal and external auditors.

8 This should include being advised of the implications for the entity of audit recommendations and guidance arising from such things as cross-agency audits and better practice guides.

Other responsibilities

Parliamentary committee reports and external reviews

- satisfy itself that the entity has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary committee reports and external reviews of the entity, and recommendations arising from these reports and reviews.

Performance reporting framework

- satisfy itself that the entity has an appropriate performance reporting framework that meets government policy objectives and requirements and is linked to the entity's objectives and outcomes.

Sub-committees

The committee may establish one or more sub-committee/s to assist the full committee in meeting its responsibilities.

The responsibilities, membership and reporting arrangements for each sub-committee shall be documented and approved by the full committee. The committee stipulates that:

- a member of the full committee is appointed as Chair of the sub-committee; the membership of sub-committees may extend beyond members of the full committee if additional expertise on particular matters is required;
- minutes of all meetings of sub-committees are to be taken, distributed promptly to all members of the full committee, and tabled for discussion at the next full committee meeting; and
- important issues that may require consideration by the full committee are brought to the attention of the Chair immediately following a sub-committee meeting so that the Chair is in a position to decide what action to take.

Responsibilities of committee members

Members of the committee are expected to understand and observe the legal requirements of the CAC Act and regulations. Members are also expected to:

- act in the interests of the entity;
- apply good analytical skills, objectivity and good judgment; and
- express opinions constructively and openly, raise issues that relate to the committee's responsibilities and pursue independent lines of enquiry.

Reporting

The committee will as often as necessary, and at least once a year, report to the Board on its operation and activities during the year. The report should include:

- a summary of the work the committee performed to discharge its responsibilities during the preceding year;
- a summary of [the entity's] progress in addressing the findings and recommendations made in internal and external audit and parliamentary committee reports;
- an overall assessment of [the entity's] risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting [the entity]; and
- details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended.

The committee may, at any time, report to the Board any other matter it deems of sufficient importance to do so. In addition, at any time an individual committee member may request a meeting with the Chair of the Board.

Administrative arrangements

Meetings

The committee will meet at least four times per year. A special meeting may be held to review [the agency's] annual financial statements.

The Chair is required to call a meeting if asked to do so by the Chair of the Board, and decide if a meeting is required if requested by another member.

Planning

The committee will develop a forward meeting schedule that includes the dates, location, and proposed agenda items for each meeting for the forthcoming year, that cover all the responsibilities outlined in this charter.

Attendance at meetings and quorums

The quorum for meetings of the committee is two persons or if the majority of the committee is greater than two persons, then that number of persons.

Secretariat

The Board, in consultation with the committee, will appoint a person to provide secretariat support to the committee. The secretariat will ensure: the agenda for each meeting is approved by the chair; the agenda and supporting papers are circulated, at least one week before the meeting; and the minutes of the meetings are prepared and maintained. Minutes must be reviewed by the Chair and circulated within two weeks of the meeting to each member and committee observers, as appropriate.

Conflicts of interest

Once each year, members of the Audit Committee will provide written declarations to the Chair for provision to the Board declaring any potential or actual conflicts of interest they may have in relation to their responsibilities. External members should consider past employment, consultancy arrangements and related party issues in making these declarations, and the Chair should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.

At the beginning of each Audit Committee meeting, members are required to declare any potential or actual conflicts of interest that may apply to specific matters on the meeting agenda. Where required by the Chair, the member will be excused from the meeting or from the committee's consideration of the relevant agenda item(s). Details of potential or actual conflicts of interest declared by members and action taken will be appropriately minuted.

Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

Assessment arrangements

The Chair of the Audit Committee, in consultation with the Chair of the Board, will initiate a review of the performance of the committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Board) with appropriate input sought from Board members, committee members, senior management, the internal and external auditors, Chief Financial Officer, and any other relevant stakeholders, as determined by the Chair of the Board.

The Chair will provide advice to the Board on a member's performance where an extension of the member's tenure is being considered.

Review of charter

At least once a year the committee will review this charter. This review will include consultation with the Board.

Any substantive changes to the charter will be recommended by the committee and formally approved by the Board.

Approved

[Signature]

Chair of the Board

Date:

Checklists and proforma

Part 3 of the Guide consists of: a number of checklists relating to particular areas of responsibility of Audit Committees; a checklist to assist in guiding discussions with the Chief Executive/Board; a proforma forward meeting schedule and self-assessment questionnaire.

Completed checklists should be retained in the Audit Committee's records to evidence the committee's deliberations.

Committee checklists

The committee checklists are designed to assist the Audit Committee's consideration of each area of responsibility through the review of material, discussion or presentations from management representatives of the entity.

Each checklist should be tailored to meet the entity's particular circumstances.

A 'no' or 'partially met' response may indicate where more detailed discussion is warranted or where specific follow-up action by the committee is warranted.

Management checklists

The Audit Committee may wish to implement a more formal and systematic process in discharging its responsibilities.

These checklists are one approach the Audit Committee may wish to take. The checklists are a series of questions that management is required to answer and submit to the Audit Committee to provide assurance that appropriate arrangements are in place in respect of particular aspects of the committee's responsibilities. In implementing this approach the Audit Committee will need to determine which members of the entity's senior management team should be responsible for signing the checklist.

Each checklist should be tailored to meet the entity's particular circumstances.

A 'no' or 'partially met' answer does not necessarily indicate a failure or deficiency, but may point to the need for specific action to be taken by management.

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Risk management—Audit Committee checklist

Risk management strategy and policy	Yes	No	Partially met
Does the committee understand the Chief Executive/ Board's approach and attitude to the management of risks by the entity, including the entity's assessment of risks?			
Has the committee a good understanding of the arrangements in place for the management of the entity's risks, particularly the entity's highest risks?			
Does the committee review the management of risks in high-risk projects, programs and activities?			
If not, is the committee satisfied that arrangements exist for the effective management of these risks?			
Does a formal risk management framework exist?			
<p>Does the committee understand the Chief Executive/ Board's approach and attitude to the management of risks by the entity, including the entity's assessment of risks?</p> <ul style="list-style-type: none"> • Has the committee a good understanding of the arrangements in place for the management of the entity's risks, particularly the entity's highest risks? • Does the committee review the management of risks in high-risk projects, programs and activities? • If not, is the committee satisfied that arrangements exist for the effective management of these risks? • Does a formal risk management framework exist? 			
Are the primary elements of the entity's risk management approach (for example, business continuity plan, disaster recovery plan, fraud control plan, annual risk assessment, etc) effectively coordinated?			
Are communication channels in place to advise staff of the entity's approach to risk management?			
Has the Chief Executive/Board formally endorsed, and actively encouraged, the use of risk management in the development of the key policies and procedures?			

Responsibility for risk management	Yes	No	Partially met
Has responsibility for the risk management framework and activities of the entity been clearly assigned to a senior manager?			

Risk identification and assessment	Yes	No	Partially met
Does the risk management framework effectively identify and assess risks, including new and emerging risks and fraud risks?			

Risk mitigation and improvement	Yes	No	Partially met
Are controls in place to manage effectively the highest risks?			
Are there any entity-wide control strategies to address 'common risks'?			
Does management ensure that risk mitigation strategies or improvements are effectively implemented?			
Does the entity's fraud control policy and plan identify controls to effectively mitigate identified fraud risks?			

Monitoring/reporting risk assessment activity	Yes	No	Partially met
Are critical risks or control failures escalated within the entity?			
Does senior management periodically receive reports on risk management plans and take action where necessary?			
Does internal audit provide the Audit Committee with a level of assurance over key risks and associated controls?			
Are sufficient resources dedicated to risk management and insurance activities?			

Risk management—management checklist

Risk strategy	Yes	No	Partially met
Is the entity's risk management framework clearly articulated and communicated to all staff?			
Has the 'tone at the top' from the Chief Executive/ Board's perspective permeated the risk culture of the entity?			
Have the entity's risks, as set out in the entity's risk management plan, been considered during business planning?			

Responsibility for risk management	Yes	No	Partially met
Is responsibility and accountability for risk management clearly assigned to individual managers?			
Are risk management activities/responsibilities included in job descriptions, where appropriate?			
Are the primary risk management activities (for example, business continuity planning, fraud control plan, annual risk assessment, and so on) across the entity, clearly defined?			
Is responsibility for co-ordinating and reporting risk management activity to the Audit Committee, or other relevant committee, clearly defined?			
Does the entity have a risk management support capability to assist with ongoing risk management practices?			

Risk framework	Yes	No	Partially met
Is there a common risk management language/ terminology across the entity?			
Does management have a formal business continuity plan incorporating a disaster recovery plan? Is the plan regularly tested and updated where necessary?			
Are risk assessments undertaken at both strategic and operational levels?			
Have the risks associated with high-risk projects, program implementation and activities been identified and assessed?			
Have the risks associated with cross-agency governance arrangements been identified?			
Does a comprehensive risk profile exist?			
Is a risk assessment undertaken for all significant organisational changes/projects?			
Does management have effective processes for ensuring risk assessments have been performed in each major business area?			
Is there a process in place to identify emerging risks and to incorporate these into the entity's risk management plan?			
Do the entity's policies appropriately address relevant operational and financial risks?			
Have any frauds, material irregularities or possible illegal acts been identified? If so, have they been fully investigated and controls revised, where appropriate?			
Does the entity have a current fraud control policy and plan in place which identifies all fraud-related risks?			

Risk mitigation and improvement	Yes	No	Partially met
Does management periodically assess the effectiveness of controls over the highest priority risks?			
Are the controls to mitigate risks to within the entity's risk tolerance adequate?			
Have all significant recommendations that impact on risk or the effective operation of controls, made by the entity's internal and external auditors, been addressed in a timely manner?			

Monitoring/reporting risk assessment activity	Yes	No	Partially met
Is there a response plan for prompt and effective action when fraud or an illegal act is discovered?			
Are systems in place for monitoring and reporting on high-risk projects, programs and/or activities?			
Are systems in place for monitoring and reporting on the management of risks, particularly high risks?			
Does the entity have a formal process by which senior management periodically assure the Chief Executive/ Board that the entity's risk management practices are operating effectively?			

Continuous improvement	Yes	No	Partially met
Continuous improvement			
Are systems in place for monitoring and reporting on high-risk projects, programs and/or activities?			
Are systems in place for monitoring and reporting on the management of risks, particularly high risks?			
Does the entity have a formal process by which senior management periodically assure the Chief Executive/ Board that the entity's risk management practices are operating effectively?			

Name:

Position:

(to be completed by the most senior executive(s) responsible for risk management in the entity)

Signed: Date: / /

Fraud control—Audit Committee checklist¹

Governance arrangements	Yes	No	Partially met
Does the entity have an appropriate fraud incident register and associated procedures in place to capture and effectively investigate fraud-related information?			
Does the entity's fraud control framework integrate with the entity's risk management and compliance frameworks?			
Is the fraud control framework adequately supported by sufficient instructions and guidance for employees?			
Does the entity have an appropriate fraud awareness and ethics training process in place and is this supported by a robust Fraud Policy and Code of Conduct?			

Fraud risk assessment and fraud control plan	Yes	No	Partially met
Does the entity's fraud risk assessment consider: <ul style="list-style-type: none"> external and internal fraud risks? the entity's role and function? 			
Is the fraud risk assessment linked to the entity's risk assessment and business planning process?			
Have key controls been identified and established to address all identified fraud risks?			
Where shortcomings have been identified, have strategies been identified to mitigate these?			
Have the key fraud risks been considered in the context of the entity's internal audit plan?			
Is the entity's fraud risk assessment and fraud control plan current and up-to-date?			
Is there a formal process in place to regularly review the entity's fraud risk assessment and fraud control plan?			

¹ See ANAO *Better Practice Guide—Fraud Control in Australian Government Entities*, March 2011, Canberra, p. 9

Monitoring and reporting	Yes	No	Partially met
Is there a formal process in place to monitor and report on the fraud risks and controls?			
Does the entity have adequate reporting channels in place for individuals (both internal and external to the entity) to report a suspected fraud?			
Does the Audit Committee receive regular reports on fraud from the entity's Fraud Manager? (These reports should outline any identified allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risks.)			

Fraud control—management checklist

Governance arrangements	Yes	No	Partially met
Does the entity have an effective and articulated fraud control framework in place?			
Does the entity have a central point of contact for fraud control within the entity?			
Does the Audit Committee have a role in reviewing the development and implementation of the fraud risk assessment and fraud control plan?			
Is information on the entity's Values and Code of Conduct easily accessible to employees and included as part of its induction processes?			
Does the entity have a conflict of interest policy and is this easily accessible and understood by employees?			

Fraud prevention	Yes	No	Partially met
Has the entity undertaken a comprehensive fraud risk assessment in the previous two years, or following any significant change to the entity if earlier?			
In identifying fraud risks, did the entity consider: the entity's role, size and function; any change in structure or function; external and internal fraud; new and emerging fraud risks; and the broader organisational risks?			
Has a fraud control plan been developed to minimise the impact and likelihood of identified risks?			
Has a fraud policy been issued by the CEO outlining the entity's position on fraud?			
Do agreements with non-government service providers consider the applicable elements of the APS Values and Code of Conduct?			
Does the entity ensure that adequate employment screening procedures are implemented?			
Does the entity take steps to ensure the bona fides of new suppliers and customers and periodically confirm these?			
Does the entity ensure that adequate fraud awareness activities and training are conducted within the organisation? This should also include external parties such as suppliers and customers.			
Does the entity have a formal process in place for communicating the outcomes of completed fraud investigations?			

Fraud detection	Yes	No	Partially met
Does the entity have a range of internal and external reporting mechanisms in place for parties to report suspected unethical behaviour (including fraud)?			
Are the entity's reporting mechanisms easily accessible by internal and external parties?			
Does the entity use internal audit to actively review its detective control environment?			
Does the entity provide sufficient information to enable employees to recognise the possible 'red flag' or early warning signs of fraud activity?			
Does the entity require active fraud detection measures such as data mining or 'hot spot analysis'?			

Fraud response	Yes	No	Partially met
Is there a system (fraud incident register) for recording allegations?			
Are employees or contractors responsible for conducting investigations on behalf of the entity appropriately qualified?			
Does the entity use the Australian Government Investigations Standards when conducting investigations?			
Does the entity use a Case Categorisation and Prioritisation Model to aid in the preliminary assessment of fraud allegations?			
Is there a general policy that recovery action be undertaken where the likely benefit will exceed the recovery costs?			
Are there processes to seek recoveries?			

Monitoring, evaluating and reporting	Yes	No	Partially met
Are there effective reporting channels (internal and external) in place to ensure all reported instances of fraud are adequately monitored?			
Do the monitoring systems ensure appropriate accountability for fraud control?			
Is there a quality assurance review system in place to help identify problems in all aspects of fraud control and its operations?			
Following an instance of fraud, does the entity review the work processes subject to the fraud to determine whether changes are required to existing processes, including processes relating to fraud risk assessment and fraud prevention?			

Internal control—Audit Committee checklist

Policies and procedures	Yes	No	Partially met
Are the entity's key internal controls reflected in, or addressed by, its policies and procedures such as Chief Executive's Instructions, or their equivalent?			
Are arrangements in place to ensure the entity's policies and procedures are appropriately reviewed, approved and communicated to all staff?			

Responsibilities and accountabilities	Yes	No	Partially met
Are delegations of authority and responsibility to individuals properly approved and kept up-to-date?			
Are delegations of authority communicated to all staff in the entity?			
Has the responsibility for the development, review and implementation of key internal controls and associated policies been clearly assigned to individual managers or business areas?			
Do Audit Committee members have a good understanding of the entity's internal controls and mechanisms to assess compliance with the entity's financial management responsibilities?			

Business systems and internal controls	Yes	No	Partially met
Does the entity's system of internal controls mitigate controllable risks to an acceptable level?			
Are changes to the design or implementation of key internal controls properly identified and implemented?			
Are processes in place to review the adequacy of financial and other key controls for all new systems, projects and activities?			
Do internal control arrangements address, to the extent necessary, cross-agency responsibilities and external parties, including contractors and advisors?			
Are appropriate business continuity planning arrangements in place?			
Do processes and systems capture fraud-related information?			
Are appropriate security policies and procedures, covering both physical and IT security, in place?			

Conduct and ethical behaviour	Yes	No	Partially met
Does the entity effectively promote and communicate the responsibilities of staff in respect of ethical behaviour and conduct? ¹			
Are expectations regarding ethical behaviour and conduct documented and communicated to new and existing staff?			

Effectiveness of the internal control framework	Yes	No	Partially met
Are arrangements in place to periodically assess the effectiveness of the entity's key internal controls, for example, through internal and external audit coverage, management review, sign-offs and self-assessments.			
Are internal and external audit findings on key internal control deficiencies or breakdowns addressed by management in a timely manner?			

¹ For example, officers employed under the *Public Service Act 1999* are required to comply with the Australian Public Service (APS) Values and Code of Conduct.

Internal control—management checklist

Policies and procedures	Yes	No	Partially met
Does the entity have approved policies and procedures (for example, Chief Executive's Instructions or their equivalent) which document its key business procedures and incorporate details of key internal controls?			
Are policies and procedures: <ul style="list-style-type: none"> disseminated to all staff? regularly reviewed and revised where appropriate? 			
Do policies and procedures cover the selection, engagement and management of external parties such as contractors and advisors?			

Responsibilities and accountabilities	Yes	No	Partially met
Are delegations of authority and responsibility to individuals appropriately determined and approved?			
Are staff formally advised of their delegated authority limits?			
Are delegations of authority and responsibility reviewed and updated on a timely basis?			
Has the responsibility for the development, review and dissemination of the entity's fraud control plan been formally allocated to an individual or business area?			

Business systems and internal controls	Yes	No	Partially met
Are ongoing reviews of the internal controls for key business processes and activities performed and are suggestions for improvement acted on promptly?			
Are control self-assessments carried out by management subject to scrutiny and challenge?			
Are there formal mechanisms for following up communications from external parties (such as customers, suppliers, contractors or regulators) that indicate problems in the internal control system or that staff have acted inappropriately?			
Is there a formal process to review the adequacy of controls in all new key systems, projects and activities?			
Do the entity's internal controls adequately protect the entity's assets from fraudulent and/or inappropriate use?			

Business systems and internal controls (cont.)	Yes	No	Partially met
Do the entity's internal control arrangements address, where required, cross-agency arrangements and external service provision?			
<p>Do the entity's financial controls incorporate, where relevant, the following:</p> <ul style="list-style-type: none"> • approval and authorisation of transactions; • timely reconciliation of balances; • review of reconciliations; • production and review of exception reports; • segregation of duties; and • restricted access to financial management systems and data. 			
Does each level of management receive timely information that compares key performance measures against budgets or other targets?			
Are staff encouraged to report improprieties or management override of established internal controls?			
Has there been a formal assessment of information security requirements for the entity?			
Are computers and electronic data adequately protected from improper use, loss or destruction?			
Have staff been informed of their responsibilities and accountabilities relating to the secure and confidential use of IT assets including data?			
Is the security of data and systems including remote access mechanisms such as the Internet regularly assessed, tested and monitored?			
<p>Is a Business Continuity Plan, incorporating a disaster recovery plan, in place?</p> <p>If so, is the Plan regularly reviewed, updated and tested?</p>			
Have any major security incidents over the last 12 months been reported to external parties, where required, and has effective remedial action been taken?			
<p>Have there been any major systems failures over the past 12 months due to control breakdowns?</p> <p>If yes, have controls been reviewed and strengthened where required?</p>			

Conduct and ethical behaviour	Yes	No	Partially met
Are all staff periodically informed of the entity's responsibilities and expectations in respect of their conduct and ethical behaviour?			
Does the entity's performance appraisal arrangements include an assessment of an individual's observance of the entity's standards of behaviour?			

Effectiveness of the internal control framework	Yes	No	Partially met
Has the entity put in place appropriate review mechanisms, such as quality assurance reviews, peer reviews, benchmarking exercises or independent evaluations, to periodically assess the effectiveness of the entity's internal controls?			
Are key internal controls subject to periodic internal audit coverage?			
Have all recommendations by internal and external audit, made within the past 12 months to address identified weaknesses in internal controls, been implemented?			

Name:

Position:

(to be completed by the most senior executive(s) responsible for the entity's control framework)¹

Signed: Date: / /

¹ Depending on the allocation of responsibilities and arrangements within the entity it may be appropriate for the checklist to be signed by more than one officer.

Financial statements—Audit Committee checklist

Timing	Yes	No	Partially met
Are there mechanisms in place to ensure the Audit Committee is advised, on an ongoing basis throughout the year, of all significant risks and issues relating to the financial statements?			
Are arrangements in place to ensure the financial statements are available for audit and completed on a timely basis?			
Does the timetable for the preparation of the financial statements, including the timing of advice from the Audit Committee, allow sufficient opportunity for the Chief Executive/Board to meet their responsibilities?			
Are arrangements in place to ensure the entity's Annual Report is finalised and tabled in accordance with the agreed timetable?			

Presentation and disclosure	Yes	No	Partially met
Have any changes in the Finance Minister's Orders been identified and reflected in the entity's financial statements?			
Do the financial statements comply fully with all reporting and disclosure requirements?			

Accounting policies	Yes	No	Partially met
Are changes in the entity's accounting policies from previous reporting periods reflected in the financial statements where necessary?			
Are these changes reasonable and supportable?			
Have the financial statements been subject to appropriate quality assurance review designed to ensure they do not contain any material errors?			

Content of the financial statements	Yes	No	Partially met
Are the valuations, estimates and judgements made in the preparation of the financial statements reasonable and supportable?			
Is the materiality level applied in assessing whether the financial statements presented a true and fair view reasonable?			
Have any deficiencies or breakdowns in the control environment impacted on the financial statements?			
Have any significant or non-recurring transactions, events or adjustments impacted on the financial statements? Have these been dealt with appropriately?			
Has the financial impact of any outstanding legal or contractual matters been identified and reflected in the financial statements?			
Can all significant variations between budgeted and actual results be adequately explained?			

Management sign-off	Yes	No	Partially met
Are the financial statements supported by management sign-offs?			

Audit of the financial statements	Yes	No	Partially met
Can the assertions made in the management representation letter provided to external audit be fully supported?			
Were there any significant adjustments to the financial statements as a result of audit scrutiny?			
If yes, does this suggest improvements are required to management processes?			
Have any errors or discrepancies identified by external audit not been taken up into the financial statements? If yes, is the committee satisfied with the reasons for the financial statements not being amended?			
Is management's approach to accounting in respect of income, asset and liability recognition appropriate?			
Have there been any significant disagreements between management and the internal or external auditors? If yes, is the committee satisfied that the issues have been satisfactorily resolved?			
Will the audit opinion on the entity's financial statements be unqualified? If not, is the committee satisfied that management has taken all reasonable action to address the issues concerned?			
Has external audit identified significant control or other issues which require management attention? If yes, is the committee satisfied with remedial action proposed?			

Committee deliberations	Yes	No	Partially met
Are the financial statements consistent with the committee members own understanding and knowledge of the entity's financial operations and position?			
In the light of the entity's briefing and member's scrutiny of the accounts, are there any residual issues that require the committee to make further enquiries in relation to the financial statements?			

Annual report	Yes	No	Partially met
Are arrangements in place to ensure that financial information in the annual report is consistent with the signed financial statements?			

Financial statements—management checklist

Timing	Yes	No	Partially met
Was the Audit Committee advised in a timely manner of all significant issues that could have impacted the financial statements?			
Was a timetable established for the preparation of the financial statements and does it comply with applicable reporting deadlines?			
Was the timetable agreed with external audit and other relevant stakeholders?			
Do you expect the timetable to be met?			

Presentation and disclosure	Yes	No	Partially met
Do the financial statements comply with the Finance Minister's Orders?			
Have the financial statements been reviewed against the appropriate PRIMA ¹ and other guidance material?			

Accounting policies	Yes	No	Partially met
Have any changes in the entity's accounting policies been reflected and disclosed in the financial statements where appropriate?			
Was external audit consulted in this process and do the external auditors agree that the disclosure is appropriate?			

Content of the financial statements	Yes	No	Partially met
Have any deficiencies or breakdowns in the control environment had a material impact on the financial statements? If yes, have appropriate remedial measures been taken?			
Have there been any communications from regulatory authorities concerning non-compliance with legislation which could impact on the financial statements? If yes, has remedial action been taken?			

¹ Illustrative financial statements produced annually by the Department of Finance and Deregulation for FMA Act and CAC Act entities.

Content of the financial statements	Yes	No	Partially met
Have there been any frauds or other irregularities during the year which could impact on the financial statements? If yes, have they been appropriately managed and rectified where possible?			
Has the financial impact of any legal matters been appropriately reflected in the financial statements?			
Has the financial impact of any significant or non-recurring transactions, events or adjustments been reflected in the financial statements?			
Have all factors that may materially affect the carrying value or classification of assets and liabilities been taken into account in preparing the financial statements?			
Are any significant valuations, estimates or judgements made in the preparation of the financial statements soundly based?			
Are the effects of the goods and services tax appropriately reflected in the carrying value of assets and liabilities at balance date?			
Is the valuation basis adopted for buildings, infrastructure, plant and equipment appropriate?			
Is the carrying value of assets supported by independent valuations where appropriate?			
Does satisfactory title to all assets exist and are there no liens or encumbrances on such assets?			
Has the remuneration of all senior executives been properly reported in the financial statements and does it include all required components of remuneration?			
Have the following been properly recorded and disclosed in the financial statements (where relevant): <ul style="list-style-type: none"> • related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees? • applicable arrangements involving restrictions on cash balances, compensating balances and line-of-credit or similar arrangements? • arrangements to repurchase assets previously sold? • material liabilities or contingent liabilities or assets including those arising under derivative instruments? • losses arising from the fulfillment of, or an inability to fulfil, any sale commitments or as a result of the purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices? 			

Content of the financial statements (cont.)	Yes	No	Partially met
Have all material commitments for the construction or acquisition of assets been disclosed in the financial statements?			
Have all events that occurred subsequent to balance date that require disclosure been included in the financial statements?			
Will the entity be able to pay its debts as and when they fall due?			

Audit of the financial statements	Yes	No	Partially met
Were the draft financial statements made available for audit in accordance with the agreed timetable?			
Were all financial and other records and information made available to external audit?			
Were there any significant adjustments to the financial statements as a result of the external audit?			
Have all disagreements with external audit concerning the financial statements been resolved?			
Has the management representation letter been completed and provided to external audit?			
Is an unqualified audit opinion expected on the entity's financial statements?			
If the audit opinion is expected to refer to any matters, do the financial statements also include reference to these matters?			

Annual report	Yes	No	Partially met
Are the financial statements contained in the annual report the final, audited statements as signed by the Chief Executive/Chair of the Board?			
Is the other financial information contained in the annual report consistent with the financial statements?			
Have all Ministerial directions been complied with and details included in the entity's annual report, where applicable?			
Are the entity's key performance results included in the entity's annual report?			

Name:

Position:

(to be completed by the most senior executive(s) responsible for the entity's financial statements)

Signed: Date: / /

Compliance requirements—Audit Committee checklist

Systems and procedures	Yes	No	Partially met
<p>Is there an appropriate framework in place to assist the entity to comply with its legislative and policy obligations? For example has management a good understanding of the entity's:</p> <ul style="list-style-type: none"> • legal¹ and policy obligations, in such areas as financial management, security, fraud, procurement, grants administration and cross-agency arrangements? • legal obligations, both federal and state, in such areas as Occupational Health and Safety, Privacy, Freedom of Information, Goods and Services Tax, Fringe Benefits Tax, and superannuation? • responsibilities to comply with International Conventions that may apply to the entity, such as the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.² 			

Responsibilities	Yes	No	Partially met
Are procedures in place which provide for any breach of legislation to be reported to senior management?			
Has responsibility for legislative and policy compliance been clearly assigned to individual managers?			
Does the entity have a culture which is supportive of, and encourages compliance with, all relevant laws, subordinate legislation and policy requirements?			

Certificate of Compliance	Yes	No	Partially met
Are arrangements in place, including management sign-offs, to provide advice on the entity's Certificate of Compliance/Compliance Report?			

¹ The main obligations placed on Chief Executives of FMA agencies and the Directors of CAC entities, under the FMA Act, CAC Act and the *Public Service Act 1999*, are set out on pages 99 to 102.

² In line with this convention, the Australian Parliament has enacted the *Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999*.

The APS Legislative Framework

The following are details of the main obligations placed on Chief Executives of FMA agencies, and Directors³ of CAC entities (other than companies) by the FMA Act, the CAC Act and the *Public Service Act 1999*.

This section is not a substitute for an understanding of the relevant legislation. It is an abstract that outlines the main obligations placed upon the Chief Executive (of an FMA entity) or Directors (of a CAC entity).

Requirements of a Chief Executive under the FMA Act 1997

The FMA Act provides for the proper use and management of public money, public property and other Commonwealth resources. It applies to all Departments of State, Departments of the Parliament and certain other bodies prescribed by regulation (called 'prescribed agencies').

Section	Requirement
Part 3 Section 10	Public money must be promptly banked, etc.
Part 3 Section 11	Public money not to be paid into non-official account.
Part 3 Section 12	Receipt and spending of public money by outsiders.
Part 3 Section 13	Money not to be withdrawn from official account without authority.
Part 3 Section 14	Misapplication or improper use of public money.
Part 3 Section 15	Liability for loss of public money.
Part 4 Section 26	Drawing rights required for payment etc. of public money.
Part 6 Section 41	Misapplication or improper use of public property.
Part 6 Section 42	Liability for loss etc. of public property.
Part 6 Section 43	Gifts of public property.
Part 7 Section 44	Promoting proper use etc. of Commonwealth resources.
Part 7 Section 45	Fraud control plan.
Part 7 Section 46	Audit Committee.
Part 7 Section 47	Recovery of debts.
Part 7 Section 48	Accounts and records.
Part 7 Section 49	Annual financial statements.
Part 7 Section 52	Chief Executive's instructions.
Part 7 Section 53	Chief Executive may delegate powers.
Part 8 Section 57	Audit of annual financial statements of Agency.

³ The Directors (who might not be called by this title) are the individuals who make up the governing body or authority.

Requirements of Directors under the CAC Act 1997

The CAC Act sets out the reporting and accountability requirements for Commonwealth authorities and Commonwealth companies. It provides for a number of classes of body (such as Government Business Enterprises and Statutory Marketing Authorities), which are defined in the Act and may have particular financial and reporting obligations.

It is usual for CAC Act bodies to be subject to additional legislation such as an Act establishing the body or the *Corporations Act 2001*. Part 3 of the CAC Act applies to authorities.

This attachment does not address Australian Government companies as these have particular requirements under the *Corporations Act 2001*.

Section	Requirement
Part 3 Section 8	Role of Auditor-General.
Part 3 Section 9	Directors must prepare annual report.
Part 3 Section 12	Audit of relevant subsidiary's financial statements.
Part 3 Section 13	Interim reports.
Part 3 Section 14	Estimates.
Part 3 Section 15	Responsible Minister to be notified of significant events.
Part 3 Section 16	Keeping responsible Minister and Finance Minister informed.
Part 3 Section 18	Banking and investment (authorities other than GBEs and SMAs).
Part 3 Section 19	Banking and investment (GBEs and SMAs).
Part 3 Section 20	Accounting records.
Part 3 Section 22	Care and diligence—civil obligation only.
Part 3 Section 23	Good faith—civil obligations.
Part 3 Section 24	Use of position—civil obligations.
Part 3 Section 25	Use of information—civil obligations.
Part 3 Section 26	Good faith, use of position and use of information—criminal offences.
Part 3 Section 27E	Responsibility for actions of directors delegate.
Part 3 Section 27F	Material personal interest—director's duty to disclose.
Part 3 Section 28	Compliance with General Policy Orders.
Part 3 Section 29	Activities of subsidiaries.
Part 3 Section 32	Audit Committee.
Schedule 1 Part 1	Contents of annual report.

Requirements relating to an Agency Head³ under the Public Service Act 1999

The main objectives of the Public Service Act are:

- to establish an apolitical public service that is efficient and effective in serving the Government, the Parliament and the Australian public;
- to provide a legal framework for the effective and fair employment, management and leadership of APS employees;
- to define the powers, functions and responsibilities of Agency Heads, the Public Service Commissioner and the Merit Protection Commissioner; and
- to establish rights and obligations of APS employees.

Section	Requirement
Part 3 Section 12	Agency Heads must promote APS Values.
Part 3 Section 14 (1)	Agency Heads are bound by the Code of Conduct in the same way as APS employees.
Part 3 Section 15 (1)	An Agency Head may impose sanctions on an APS employee in the Agency who is found to have breached the Code of Conduct.
Part 3 Section 16	Protection for whistleblowers.
Part 3 Section 17	Prohibition on patronage and favouritism.
Part 3 Section 18	An Agency Head must establish a workplace diversity program to assist in giving effect to the APS Values.
Part 4 Section 20 (1)	An Agency Head, on behalf of the Commonwealth, has all the rights, duties and powers of an employer in respect of APS employees in the Agency [as prescribed by the regulations].
Part 4 Section 21 (1)	The Prime Minister may issue general directions in writing to Agency Heads relating to the management and leadership of APS employees.
Part 4 Section 24 (1)	An Agency Head may from time to time determine in writing the remuneration and other terms and conditions of employment applying to an APS employee or APS employees in the Agency.
Part 4 Section 25	An Agency Head may from time to time determine the duties of an APS employee in the Agency, and the place or places at which the duties are to be performed.
Part 4 Section 29(1)	An Agency Head may at any time, by notice in writing, terminate the employment of an APS employee in the Agency. Refer to the <i>Fair Work Act 2009</i> for rules and entitlements.

³ Agency Head means (a) the Secretary of a Department or (b) the Head of an Executive Agency or (c) the Head of a Statutory Agency.

-
- Part 5 Section 42 (2)** Agency Heads and APS employees must comply with Commissioner's Directions.
-
- Part 7 Section 57 (1)** The Secretary of a Department, under the Agency Minister, is responsible for managing the Department and must advise the Agency Minister in matters relating to the Department.
-
- Part 7 Section 63 (1)** After the end of each financial year, the Secretary of a Department must give a report to the Agency Minister, for presentation to the Parliament, on the Department's activities during the year.
-
- Part 7 Section 63 (2)** The report must be prepared in accordance with guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit.
-
- Part 9 Section 70(1)** After the end of each financial year, the Head of an Executive Agency must give a report to the Agency Minister, for presentation to the Parliament, on the Agency's activities during the year.
-
- Part 11 Section 78 (7)** An Agency Head may, in writing, delegate to another person any of the Agency Head's powers or functions under this Act (other than this section).

Compliance requirements—management checklist

Governance and reporting arrangements	Yes	No	Partially met
Are the entity's legislative and policy obligations adequately documented, for example in Chief Executive's Instructions or similar documentation, and well understood by relevant managers and staff?			
Does management generally take steps to create and maintain a culture which encourages legislative (both federal and state), and policy compliance?			
<p>Are the entity's responsibilities for complying with particular legislative and policy requirements understood by the responsible individuals or specified business areas?</p> <p>Consider:</p> <ul style="list-style-type: none"> • occupational health and safety; • procurement; • Certificate of Compliance/Compliance Report; • privacy; • freedom of information; • environmental laws; • goods and services tax; • fringe benefits tax; • superannuation payments to certain contractors; • fraud; • security; • cross-agency arrangements; • grants; and • committing public money. 			
Are procedures in place that require any breaches of legislation or whole-of-government policies to be reported to senior management?			
Are relevant staff provided the opportunity to maintain and update their knowledge of the entity's legislative and policy obligations as part of their professional development plans?			
Do the entity's induction procedures include arrangements for new staff to be informed about their key legislative and policy responsibilities?			
Have the entity's responsibilities for lodging returns/data on fringe benefits tax, goods and services tax, fraud, security and occupational health and safety been met?			

Governance and reporting arrangements (cont)	Yes	No	Partially met
Does management require any instances of non-compliance with, for example, values, codes of conduct and anti-discriminative laws to be reported to senior management?			
Does the entity encourage relevant managers to seek legal advice to clarify/inform the entity's legal and policy responsibilities, particularly in situations where the risks associated with non-compliance are high?			
Does the entity have arrangements in place to identify, and comply with, relevant International Conventions, particularly the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.			

Certificate of compliance	Yes	No	Partially met
Have the entity's responsibilities for preparing the Certificate of Compliance/Compliance Report been met?			
Is the Certificate of Compliance/Compliance Report supported by management sign-offs?			

Name:

Position:

(to be completed by the most senior executive(s) responsible for legislative compliance in the entity)

Signed: Date: / /

Internal audit—Audit Committee checklist¹

Internal audit charter	Yes	No	Partially met
Are the responsibilities, access rights, reporting arrangements and standards of performance of the internal audit function detailed in an internal audit charter?			
Does the charter specify the professional standards that all internal audits must comply with?			
Does the charter afford internal audit a sufficient level of independence from management?			

Internal audit delivery model	Yes	No	Partially met
Is the committee satisfied with the service delivery model used to provide internal audit services?			
Does the tender process ensure that potential conflicts of interest are identified where the entity tenders for internal audit?			
Where the internal audit function is outsourced, are there appropriate mechanisms in place to effectively manage the contract with the internal audit service provider(s), including potential conflicts of interest?			

Annual internal audit coverage and audit plans	Yes	No	Partially met
How has the proposed internal audit coverage been developed? In particular does the proposed coverage align with the entity's documented strategic and operational risks?			
Does the internal audit work plan support the independence of the internal audit function from the activities it audits?			
Does the prioritisation of proposed audit topics align with the entity's risk management plan and internal audit's own risk assessment?			
Does the audit work plan take into account past internal and external audit activity, findings and recommendations?			

¹ Further guidance in relation to internal audit is provided in the ANAO's Better Practice Guide *Public Sector Internal Audit*, September 2007. Available at <<http://www.anao.gov.au>>.

Annual internal audit coverage and audit plans (cont.)	Yes	No	Partially met
Is the internal audit plan an appropriate mix between compliance audits, performance improvement audits, and advisory services?			
Does the audit work plan adequately detail the objective, scope, resource requirements and timeframe for each of the audit topics proposed?			
Has the scope of proposed internal audit activity been impacted adversely by resource constraints? If yes, has the committee's views been communicated to the Chief Executive/Board?			
Has the scope of proposed internal audit activity been impacted adversely by resource constraints? If yes, has the committee's views been communicated to the Chief Executive/Board?			

Internal audit reports²	Yes	No	Partially met
Are internal audit reports clear and concise?			
Do internal audit reports satisfactorily address the agreed audit objectives?			
A practice adopted by some Audit Committees is to require internal audit to provide an annual report on the entity's control environment.			

Resources	Yes	No	Partially met
Does internal audit have sufficient resources to carry out its responsibilities, including completion of the approved internal audit plan?			
Is the committee satisfied with the level of skills and experience of the internal audit team?			
Is internal audit able to access specialist skills, where required?			

² A practice adopted by some Audit Committees is to require internal audit to provide an annual report on the entity's control environment.

Performance	Yes	No	Partially met
Does internal audit have a sufficient understanding of the entity's business?			
Does internal audit complete audit assignments in a timely manner and to a high quality?			
Does internal audit have effective quality control arrangements in place designed to ensure all work is undertaken to the required professional standards?			
Does internal audit maintain effective liaison with external audit?			
Does internal audit have a professional and cordial relationship with management?			

Private session with internal audit	Yes	No	Partially met
Has internal audit had full and unencumbered access to all entity records and information?			
Has internal audit received assistance and cooperation from staff and management?			
Are there any issues internal audit wishes to discuss with the committee?			
Does internal audit have any suggestions on how the work of the committee can be improved?			

Internal audit—checklist¹

Internal audit	Yes	No	Partially met
Do you consider that the Internal Audit Charter addresses all relevant matters?			
Have all audits undertaken by internal audit complied with the required professional standards?			
Has internal audit had full and unencumbered access to all entity information and staff in the conduct of its work?			
Has management been cooperative and provided timely responses to internal audit requests for information and audit reports?			
Do you consider that internal audit has sufficient resources, including access to external sources, to meet your responsibilities?			
Do you consider that internal audit has sufficient skills and expertise, including access to external assistance, to meet its responsibilities?			
Has internal audit had direct access to the Chief Executive when required?			
Does internal audit have sufficient support from senior management?			
Is there a program in place designed to improve the skills and knowledge of the internal audit team?			

Name:

Position: Head of Internal Audit

Signed: Date: / /

¹ A model Internal Audit Charter is in Part 2 of the ANAO's Better Practice Guide *Public Sector Internal Audit*, September 2007.

External audit—Audit Committee checklist

Audit coverage	Yes	No	Partially met
Has external audit clearly articulated its proposed financial statement and performance audit coverage?			
Has external audit taken into account the internal audit coverage when establishing its audit coverage?			
Has external audit kept the committee regularly informed about the progress of audits? ¹			

Relationships	Yes	No	Partially met
Has external audit been receptive to suggestions from the committee about proposed audit coverage and the timing of audits?			
Has external audit maintained professional and cordial relations with the committee and entity management?			
Has external audit made a useful contribution to the deliberation of the committee?			

Private session with external audit representatives	Yes	No	Partially met
Has external audit had full and free access to all records and information required to conduct its audits?			
Has management displayed a constructive and professional approach to external audit staff?			
Has external audit been given the opportunity to make suggestions on how the work of the committee can be improved?			

¹ It would not be expected that the Audit Committee would be involved in reviewing Issues Papers relating to a performance audit by the Australian National Audit Office in view of their preliminary nature.

Other responsibilities—Audit Committee checklist

Parliamentary committee reports and recommendations	Yes	No	Partially met
Does the entity have processes in place to implement relevant parliamentary committee report recommendations that have been agreed by Government?			
Does the entity have processes which include assigning responsibility to review and action, as appropriate, parliamentary committee reports, external reviews of the entity and recommendations arising from these reports and reviews?			

Non-financial performance	Yes	No	Partially met
Does the entity have sufficient performance reporting arrangements in place to meet the requirements of the framework? If so, does the framework: <ul style="list-style-type: none"> • specify desired outcomes? • identify programs and associated deliverables? • identify measurable performance indicators? • have an annual reporting regime in place? Has responsibility for implementing, monitoring and reporting of entity performance been clearly assigned to individual managers or business areas?			

Portfolio responsibilities	Yes	No	Partially met
Does the entity have mechanisms in place by which the Chief Executive/Board is informed of significant issues within the portfolio?			
Has responsibility for monitoring and reporting of significant issues relating to the portfolio been clearly assigned to individual managers or business areas?			

Name:

Position:

(to be completed by the most senior executive(s) responsible for these responsibilities in the entity)

Signed: Date: / /

¹ In the context of the Outcomes and Programs Framework, entities refers to those bodies governed by the FMA Act or CAC Act that are required to report publically in accordance with the framework.

Chair responsibilities—discussion checklist

This checklist could be used by the Chair of the Committee as an aide-memoire of matters that may benefit from discussion with the Chief Executive/Board.

Matters for discussion relating to the membership and responsibilities of the committee and its relationship with other governance and assurance mechanisms could usefully include:

- the expectations of the Chief Executive/Board in relation to membership of the committee and the skills and experience of committee members. In FMA agencies, this will include the desirable mix of external and management members;
- the breadth of the committee's responsibilities, particularly in relation to risk management including the expectations of the Chief Executive/Board relating to the review of the management of risk in high-risk projects and programs;
- the committee's relationship with, and potential review of, other governance committees and assurance mechanisms that exist within the entity;
- the potential responsibilities of the committee (of a portfolio department) in relation to other portfolio entities;
- the nature and frequency of discussions between the Chief Executive/Board and the Audit Committee Chair;
- the nature and frequency of formal and informal reporting to the Chief Executive/Board;
- the Chair's attendance at senior management meetings and other management forums, as an observer;
- the Chief Executive's/Board Chair's attendance at, and participation in, audit committee meetings; and
- the Chief Executive/Board's participation in assessing the performance of the committee.

Forward meeting schedule

The establishment of a forward meeting schedule is an effective way of managing the committee's business. It also assists in meeting administrative and co-ordination arrangements for the members, observers and other invitees in advance of each meeting.

The following format can be used by each committee to plan its forward meeting schedule.

Committees should carefully consider the number of meetings required to enable the committee to fully discharge its responsibilities

Audit Committee meeting	Meetings				
	Mar	Jun	Aug ¹	Oct	Dec
Risk Management					
Review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of the entity's financial and business risks, including fraud.*					
Review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings.#					
Review the impact of the entity's risk management framework on its control environment and insurance arrangements.*					
Review whether a sound and effective approach has been followed in establishing the entity's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.*					
Review the entity's fraud control plan and satisfy itself the entity has appropriate processes or systems in place to capture and effectively investigate fraud related information.*					
Provision of strategic briefing/overview by the Chief Executive to Audit Committee members.#					
Receive briefing by management on strategic risks and other issues.#					

Key:

* Once a year

Periodically

** Ongoing event

1 Special financial statement meeting

Internal controls	Meetings				
	Mar	Jun	Aug ¹	Oct	Dec
Review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisors, is sound and effective.*					
Review whether management has in place relevant policies and procedures, including Chief Executive's Instructions or their equivalent, and that these are periodically reviewed and updated.*					
Determine whether the appropriate processes are in place to assess, at least once a year, whether policies and procedures are complied with.*					
Review whether appropriate policies and procedures are in place for the management and exercise of delegations.#					
Consider how management identifies any required changes to the design or implementation of internal controls.#					
Financial statements					
Review the financial statements and provide advice to the Chief Executive/Board, (including whether appropriate action has been taken in response to audit recommendations and adjustments) ¹ and recommend their signing by the Chief Executive/ Board.*					
Satisfy itself that the financial statements are supported by appropriate management sign-off on the statements and on the adequacy of the systems of internal control.*					
Review the processes in place designed to ensure that financial information included in the entity's annual report is consistent with the signed financial statements.*					
Satisfy itself that the entity has appropriate mechanisms in place to review and implement, where appropriate, relevant parliamentary committee reports and recommendations.*					
Satisfy itself that the entity has a performance management framework that is linked to organisational objectives and outcomes. ^{2*}					

1 The FMA Regulations for FMA agencies require the Audit Committee to provide advice to the Chief Executive on the preparation and review of financial statements of the agency.

2 It is recognised that in some entities this role is undertaken by an Executive Committee/Board.

Compliance with legislative and policy requirements	Meetings				
	Mar	Jun	Aug ¹	Oct	Dec
Determine whether management has appropriately considered legal and compliance risks as part of the entity's risk assessment and management arrangements.*					
Review the effectiveness of the system for monitoring the entity's compliance with laws, including governance legislation, regulations and associated government policies.#					
Internal audit					
Review the internal audit coverage and Annual Work Plans, ensure these plans are based on the entity's risk management plan, and recommend approval of the plans by the Chief Executive/Board.*					
Advise the Chief Executive/Board on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan.#					
Coordinate, as far as practicable, audit programs conducted by internal and external audit and other review functions.#					
Review all audit reports and provide advice to the Chief Executive/Board on significant issues identified in audit reports (including where appropriate action is not taken) and action to be taken on issues raised including identification and dissemination of good practice.#					
Monitor management's implementation of internal audit recommendations.#					
Review the internal audit charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place.*					
Periodically review the performance of internal audit.#					
Provide advice to the Chief Executive/Board on the appointment of the Head of Internal Audit (in the case of in-house internal audit function), and/or recommend to the Chief Executive/Board the appointment of the internal auditor.#					
Audit Committee members-only session with internal audit.#					

External audit	Meetings				
	Mar	Jun	Aug ¹	Oct	Dec
Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the performance the audit services provided.#					
Review all external audit plans and reports in respect of planned or completed audits and monitor management's implementation of audit recommendations.#					
Provide advice to the Chief Executive/Board on action to be taken on significant issues raised in an external audit report or better practice guide.#					
Audit Committee members-only session with external audit.#					
Other responsibilities					
Review of the Audit Committee charter.*					
Receive and consider conflict of interest declarations.*					
Receive and consider reports from other committees within the entity's governance framework.#					
Review and approve the Audit Committee's annual report to the Chief Executive/Board summarising the committee's activities during the year.*					
Self-assessment of Audit Committee performance.*					

Self-assessment questionnaire

This questionnaire has been prepared as a guide to illustrate the type of questions against which the performance of the Audit Committee might be assessed and is aimed at assisting the committee as a whole to undertake a self-assessment of its own performance.

The questionnaire includes a large number of questions and should be tailored by the Audit Committee to meet its own requirements. Generally it would not be expected that all questions would be applicable each time an assessment was undertaken. It may be completed by the committee as a whole or by each member individually, and then collated by the committee secretariat. The Chair of the Audit Committee and members may wish to weight certain aspects of the self-assessment more than others.

The questionnaire should ideally be formally completed by the committee or, alternatively, could be used as a basis for discussion to identify areas for improvement or development with relevant stakeholders. The relevant stakeholders would normally include the Chief Executive and/or Chair of the Board, internal audit, external audit and senior management of the entity.

Regardless of the method employed, any assessment of the Audit Committee's performance should be consistent with the committee's charter. The results of the self-assessment and any resultant action plans should be provided to the Chief Executive or Chair of the Board.

Rating scale: 1 = Strongly disagree 5 = Strongly agree

Audit Committee meeting	Rating scale				
	1	2	3	4	5
Does the charter articulate the committee's responsibilities and provide the committee with the necessary authority to fulfil them?					
Does the charter facilitate and support the effective operation of the committee?					
During the past 12 months, did the committee adequately address all of its responsibilities as detailed in its charter?					
If not, are arrangements in place to rectify this in the next 12 months?					
Comments/suggestions for improvement					
<div style="border: 1px solid #ccc; padding: 5px;"> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> </div>					

Meeting administration and conduct	Rating scale				
	1	2	3	4	5
Has the committee had the appropriate number of meetings to properly discharge its duties?					
Does the agenda-setting process allow for all necessary items to be included?					
Is the agenda structured to allow sufficient time to discuss the most complex and critical issues?					
Does the committee receive agenda items and supporting papers in sufficient time prior to meetings?					
Are Audit Committee members given the opportunity to be briefed prior to meetings? If so, are these briefings useful?					
Are the committee agenda and supporting papers of sufficient clarity and quality to make informed decisions?					
Are Audit Committee meetings well run and productive?					
Are Audit Committee minutes appropriately maintained and of good quality?					
Comments/suggestions for improvement					
<p>.....</p> <p>.....</p> <p>.....</p>					

Chief Executive/Board communications	Rating scale				
	1	2	3	4	5
Are Audit Committee communications to the Chief Executive/ Board about the committee's deliberations and activity of an appropriate quality?					
Is the Chief Executive/Board well informed, on a timely basis, of the committee's deliberations and activity?					
Comments/suggestions for improvement					
<p>.....</p> <p>.....</p> <p>.....</p>					

Internal Audit	Rating scale				
	1	2	3	4	5
Did the committee appropriately review and approve the internal audit plan?					
Did the committee consider the adequacy of internal audit resources?					
Did the committee appropriately review and approve any significant changes to the internal audit plan?					
Did the committee appropriately consider the performance of internal audit?					
Does the committee address its responsibilities in respect of its review and consideration of internal audit reports and identified issues?					
Did the committee review the internal audit charter to ensure that appropriate structures, authority, access and reporting arrangements are in place?					
Comments/suggestions for improvement					
<p>.....</p> <p>.....</p> <p>.....</p>					

External Audit	Rating scale				
	1	2	3	4	5
Did the Audit Committee appropriately consider and understand the external audit plan?					
Did the committee review external audit reports and management letters and consider management responses to findings and recommendations?					
Did the committee provide input and feedback on external audit coverage and performance?					
Comments/suggestions for improvement					
<p>.....</p> <p>.....</p> <p>.....</p>					

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