Public Sector Audit Committees

COMPANION TO THE BETTER PRACTICE GUIDE
Key stakeholders

Accountable Authority

The Accountable Authority has a key role in supporting the effectiveness of the Audit Committee. As an Audit Committee is established to assist the Accountable Authority to discharge their responsibilities, it is important that the committee Chair develop a sound working relationship with the Accountable Authority and the committee work is informed by the expectations of the Accountable Authority.

Audit Committee Chair and members

Having an Audit Committee Chair and 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.

Internal audit

The relationship between the Audit Committee and internal audit is central to enabling the committee to meet its responsibilities. In practice, internal audit is generally functionally responsible to the Audit Committee for the conduct of its work program. The relationship between the Head of Internal Audit and the committee is therefore an important one.

Senior managers

It is important that senior managers have a good understanding of the Audit Committee’s responsibilities and adopt an open and constructive attitude in their dealings with the committee as a whole, and with individual members. It is expected that senior managers would be constructive when interacting with the committee and addressing issues raised by the committee, internal audit or the ANAO.
Better practice attributes of Audit Committees

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

- Has a formal charter that: has regard to relevant legislative requirements and the entity’s broader corporate governance framework; includes the committee’s functions and responsibilities; and is approved by the Accountable Authority.

- Members collectively possess relevant business, financial management, ICT and public sector experience and expertise.

- Has a sound working relationship with the Accountable Authority, senior management of the entity and other stakeholders.

- Adopts an independent perspective, and appreciates and respects 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 leads discussions, encourages the participation of other members, and conducts meetings in an effective manner.

- Encourages and maintains an open and constructive dialogue with other entity committees, senior management, internal audit and the ANAO.

- Exercises judgement and discretion in determining how best to meet its responsibilities.

- 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.

- Is mindful of the strategic and operational environment of the entity when requesting information from entity management, and balances the resources required with the value to the committee of the information sought.

- Receives an appropriate level of support and provides committee members sufficient opportunities to keep abreast of key developments in the entity, the public sector, the business environment in which the entity operates and the wider community.
The functions and responsibilities of a better practice Audit Committee will include all or the majority of the following:

- Review the appropriateness of an entity’s:
  - financial reporting
  - performance reporting
  - system of risk oversight and management
  - system of internal control

### Financial reporting
- Review the financial statements and provide advice to the Accountable Authority (including recommending their signing by the Accountable Authority). In particular, the committee will review:
  - the entity’s compliance with accounting standards
  - the appropriateness of accounting policies and disclosures, including any significant changes to accounting policies
  - areas of significant judgement and financial statement balances that require estimation
  - significant or unusual transactions
  - sign-off by entity management in relation to the quality of the financial statements, internal controls and compliance
  - the auditor’s judgments about the adequacy of the entity’s accounting policies and the quality of the entity’s processes for the preparation of the entity’s financial statements, through discussions with the ANAO
  - whether appropriate management action has been taken in response to any issues raised by the ANAO, including financial statement adjustments or revised disclosures
  - Act as a forum for communication between entity management and the ANAO.
  - 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.

### Performance reporting
- Review the entity’s systems and procedures for assessing and reporting the achievement of the entity’s performance. In particular, the committee will satisfy itself that:
  - the entity’s Portfolio Budget Statements and/or corporate plan include details of how the entity’s performance will be measured and assessed
  - the entity’s approach to measuring its performance throughout the financial year against the performance measures included in its Portfolio Budget Statements and/or corporate plan is sound, and has taken into account guidance issued by the Department of Finance
  - the entity has sound processes in place for the preparation of its annual Performance Statement and the inclusion of the statement in its annual report
  - the entity’s proposed Performance Statement is not inconsistent with the entity’s financial information, including its financial statements, that it proposes to include in its annual report

**Note:** the requirement for entities to prepare performance statements in accordance with section 39 of the PGPA Act applies from 2015–16. The Audit Committee’s responsibilities in relation to performance reporting should be reviewed at the time the Public Governance, Performance and Accountability Amendment (Corporate Plans and Annual Performance Statements) Rule 2014, and the associated Resource Management Guides are finalised.

### System of risk oversight and management
- Review whether management has in place a current and sound enterprise risk management framework and associated internal controls for effective identification and management of the entity’s business and financial risks, including fraud [see note].
- Satisfy itself that a sound approach has been followed in managing the entity’s highest risks including those associated with individual projects, program implementation, and activities.
- Review the process of developing and implementing the entity’s fraud control arrangements and satisfy itself that the entity has appropriate processes and systems in place to detect, capture and effectively respond to fraud risks.
- Review reports on fraud from management that outline any significant or systemic allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in the entity.
At least annually, commission an entity-wide assurance map that identifies the entity’s key assurance arrangements [see note].

**Note:** the Audit Committee of a corporate entity could be given the authority to approve the entity’s risk management plan and/or approve the assurance map.

### System of internal control

**Internal control framework**

- Review management’s approach to maintaining an effective internal control framework; this framework should include controls in relation to functions performed by external parties such as contractors and advisers.
- Review whether management has in place relevant policies and procedures, including Accountable Authority Instructions or their equivalent, and that these are periodically reviewed and updated.
- Satisfy itself that appropriate processes are in place to assess whether key policies and procedures are complied with.
- Satisfy itself that management periodically assesses the adequacy of the entity’s information security arrangements, including complying with entity reporting obligations.

**Legislative and policy compliance**

- Review the effectiveness of systems for monitoring the entity’s compliance with laws, regulations and associated government policies with which the entity must comply.
- 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.
- Determine whether management has appropriately considered legal and compliance risks as part of the entity’s enterprise risk management plan.
- Provide advice to the Accountable Authority regarding the issue of the entity’s annual Compliance Report.

**Internal audit coverage**

- Review the proposed internal audit coverage, ensure the coverage takes into account the entity’s key risks, and recommend approval of the Internal Audit Work Plan by the Accountable Authority or nominated delegate [see note].

- Review all audit reports and provide advice to the Accountable Authority on significant issues identified in audit reports and recommend action on significant issues raised, including identification and dissemination of good practice.
- Obtain an annual report from the Head of Internal Audit, or the outsourced internal audit service provider, on the overall state of the entity’s internal controls.

**Business continuity management**

- Satisfy itself that a sound 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.

**Delegations**

- Review whether appropriate policies and associated procedures are in place for the management and exercise of delegations and authorisations.

**Ethical and lawful conduct**

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

**Other functions**

**Administration of the internal audit function**

- Periodically review the Internal Audit Charter [see note].
- Advise the Accountable Authority on the adequacy of internal audit resources, or budget, to carry out its responsibilities, including completion of the approved Internal Audit Work Plan.
- Coordinate, to the extent possible, the work programs of internal audit and other assurance or review functions.
- 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.
- Obtain an annual report from the Head of Internal Audit or the internal audit service provider on the overall state of the entity’s internal controls.

**Note:** the Audit Committee of a corporate entity could be given the authority to approve the entity’s Internal Audit Work Plan.
Audit Committee functions and responsibilities (continued)

☐ Periodically review the performance of internal audit, and report the results to the Accountable Authority.

☐ Provide advice to the Accountable Authority on the appointment of the Head of Internal Audit (in the case of an in-house internal audit function) or recommend to the Accountable Authority the appointment of the internal audit service provider where the internal audit function is outsourced or co-sourced [see note].

☐ Periodically meet privately with the Head of Internal Audit.

Governance arrangements

☐ Periodically review the entity’s governance arrangements or elements of the arrangements as determined by the Accountable Authority and suggest improvements, where appropriate, to the Accountable Authority.

Portfolio responsibilities [for Audit Committees of portfolio departments only]

☐ Satisfy itself that appropriate mechanisms are in place for the portfolio Secretary to be informed of all significant issues within the portfolio.

Parliamentary committee reports, external reviews and evaluations

☐ Satisfy itself that the entity has appropriate mechanisms in place to review relevant parliamentary committee reports, external reviews and evaluations of the entity and implement, where appropriate, any recommendations arising.

Other

☐ Undertake other activities related to its responsibilities as requested by the Accountable Authority.

Note: the Audit Committee of a corporate entity could be given the authority to approve the entity’s Internal Audit Charter and/or approve the appointment, replacement or dismissal of the Head of Internal Audit (in the case of an in-house internal audit function), or the appointment of the internal audit service provider.

Attributes of an effective Audit Committee member

✔ shows good judgement, is balanced in his/her consideration of issues and takes a whole-of-entity perspective

✔ knows the business of the entity; understands the role of the committee and the expectations of the Accountable Authority; takes the time to understand changes that affect how the entity operates and its risks

✔ brings knowledge and expertise to bear in committee deliberations

✔ displays a constructive and positive attitude in dealings with other committee members, committee advisors and observers

✔ is a good communicator, builds effective networks and relationships while maintaining necessary confidences

✔ devotes sufficient time to committee business

✔ displays independence of mind in committee deliberations and asks the ‘hard’ questions when necessary