



REMUNERATION TRIBUNAL

Determination 2012/13: Remuneration and Allowances for Holders of Part-Time Public Office

This Determination comprises:

Part 1 – General

Part 2 – Fees

Part 3 – Conditions of Official Travel

Schedule A – Specified Offices – Fees and Allowances

Schedule B – List of Professional Committees (Health and Ageing Portfolio)

Schedule C – Primary Industry Authorities – Fees and Allowances

Schedule D – Torres Strait Regional Authority – Fees and Allowances

Schedule E – Aboriginal Land Councils – Fees and Allowances.

PART 1 – GENERAL

- 1.1 Legislative Basis:** The Remuneration Tribunal has made this Determination in accordance with subsections 7(3) and 7(4) of the *Remuneration Tribunal Act 1973*.
- 1.2 Effective Date:** This Determination takes effect on and from 1 July 2012.
- 1.3 Effect on Earlier Determinations:** This Determination supersedes and revokes in full Determination 2011/09 (as amended) – *Remuneration and Allowances for Holders of Part-Time Public Office* and also supersedes and revokes the following Determinations (that amended 2011/09): 2011/13; 2011/14; 2011/17; 2011/19; 2011/21; 2011/23; 2012/01; 2012/07; 2012/08.
- 1.4 Definitions:** In this Determination, unless the context clearly indicates otherwise:

'authority' is a reference to any body or office to which office-holders, as defined in clause 1.4, are appointed;

'business of the authority' means any business of the authority conducted by an office-holder with the approval of the authority, other than attendance at a formal meeting and the preparation time for that meeting, except as specified in Clause 2.9;

'office-holder' means the holder of a part-time public office;

'public office' has the same meaning as in the *Remuneration Tribunal Act 1973*.

PART 2 – FEES

2.1 Specified Offices: The fees set out in Schedules A, B, C, D and E apply to the holders of the public offices specified in those schedules. They are inclusive of the amount necessary to meet any taxation obligation in respect of these fees.

2.2 Remuneration Packaging: An agency may provide access to remuneration packaging to office-holders covered by this Determination. An office-holder may elect either to take benefits in lieu of her or his fee or to take a combination of her or his fee and benefits.

2.2.1 Any election made in accordance with clause 2.2 must:

- (a) be in accordance with agency policies and procedures on remuneration packaging applicable to such offices;
- (b) be consistent with relevant taxation laws and rulings or guidelines applicable to remuneration packaging schemes issued by the Australian Taxation Office; and
- (c) not result in any cost to the Commonwealth (including in relation to any fringe benefits taxation) additional to the cost which would be incurred if benefits able to be taken as fees were taken as fees.

2.3 Offices not specified: An office-holder in respect of whom a fee has not otherwise been specified in this Determination shall, subject to the conditions outlined in clauses 2.9 to 2.13 of this Determination, be paid a daily fee as set out in Table 2A below. These fees are inclusive of the amount necessary to meet any taxation obligation in respect of these fees.

Table 2A: Public Offices not specified in this Determination – Daily Fees with effect from 1 July 2012.

Office	Category 1	Category 2	Category 3
	\$ per day	\$ per day	\$ per day
Chairperson	418	564	681
Member	314	418	606

2.3.1 Minister decides category: The category of fee to be paid shall be determined by the Minister within whose portfolio responsibility the public office is located, in accordance with the nature, function and responsibilities of the office.

2.3.2 Official Travel: An office-holder whose fee has been determined in accordance with clause 2.3 shall be entitled to travelling allowance for travel on official business within Australia at the Tier 2 rate, in accordance with Part 3 of this Determination.

Conditions of payment of base and meeting fees

2.4 Application: The provisions of clauses 2.5 to 2.7 apply to office-holders covered by Table A2A in Schedule A. Clauses 2.8 to 2.13 do not apply to offices covered by Table A2A.

2.5 Base fee: The base fee is an annual fee payable on a periodic basis throughout each year. Part years are paid on a proportionate basis. The base fee covers all activities undertaken on behalf of the authority, except formal meetings of the authority. Committee work is included in the base fee.

- 2.6 Meeting fee:** The daily meeting fees specified in Table A2A are payable only in respect of formal meetings of the prescribed authority, requiring attendance for a full day, or more than one day, of at least 5 hours on each day. Formal meeting attendance for each member must be certified by the Chair or nominated presiding officer.
- 2.7 Exclusions:** No meeting fee is payable in respect of part-day meetings, preparation or travel time, committee meetings, formal dinners, teleconferences, representational activities or other business of the authority. The base fee covers those activities. There is no payment in respect of aggregation of part-day work of any kind.

Conditions of payment of daily fees

- 2.8 Application:** The provisions of clauses 2.9 to 2.13 apply to office-holders covered by clause 2.3 and by Schedules A (Table A1A only), B and C, unless otherwise specified. Clauses 2.9 to 2.13 do not apply to Schedules D and E.
- 2.9 Daily fee – preparation for meetings:** The daily fee for a formal meeting includes a component to cover normal preparation time, but where the chairperson of the authority considers the period of preparation time involved is so unusual as to warrant recognition that period may be included as business of the authority.
- 2.10 Daily fee – minimum hours:** An office-holder shall be paid the daily fee in respect of such period, not less than three hours, on any one day on which he or she attends a formal meeting of the authority, and/or is engaged on business of the authority other than normal preparation time for a meeting, subject to the following conditions.
- 2.10.1** The chairperson, or nominated presiding officer, shall in each case certify whether the period of three hours has elapsed and in so certifying may have regard to reasonable travelling time incurred by an office holder away from the metropolitan area of the capital city or the environs of the town in which he or she lives.
- 2.10.2** The maximum payment in respect of any one day shall be the daily fee.
- 2.11 Part-payment of daily fee – meeting days:** An office-holder may be paid in respect of formal meetings of less than three hours subject to the following conditions:
- (a) for formal meetings aggregating less than two hours, an amount equal to two-fifths of a daily fee;
 - (b) for formal meetings, or formal meetings and business of the authority on the day of a formal meeting, of two hours or more, but less than three hours on any one day; an amount equal to three-fifths of a daily fee;
 - (c) the maximum payment in respect of any one day shall be the daily fee;
 - (d) eligibility for each payment shall be certified by the chairperson or nominated presiding officer and in so certifying the chairperson may have regard to reasonable travelling time in accordance with subclause 2.10.1; and
 - (e) preparation time shall only be included in accordance with clause 2.9.
- 2.12 Aggregation of hours for daily fee – non-meeting days:** An office-holder may also be paid a daily fee in respect of aggregates of periods of business of the authority of less than three hours, subject to the following conditions:
- (a) individual periods of business must be on other than formal meeting days and each period must be for a minimum of one hour;

- (b) to attract payment of a daily fee, aggregated periods shall total at least five hours;
- (c) the maximum payment in respect of any one day shall be the daily fee;
- (d) eligibility for each payment shall be certified by the chairperson and in so certifying the chairperson may have regard to reasonable travelling time in accordance with subclause 2.10.1; and
- (e) preparation time shall only be included in accordance with clause 2.9.

2.13 Daily Fees – travelling on non-meeting days: Where an office holder must undertake official travel on a non-meeting day, the chairperson or nominated presiding officer may determine that the office holder is engaged on business of the authority for the period of that travel and is therefore entitled to receive all or part of the daily fee in accordance with subclause 2.10.1 and 2.10.2.

2.14 Daily Fee – Superannuation Complaints Tribunal (SCT): The following sub-clauses apply, (and clauses 2.4 to 2.7 and clauses 2.9 to 2.13 do not apply) in relation to a person who holds an office as a member of the SCT on a part-time basis.

2.14.1 A daily fee is payable once such a person has undertaken official business of five hours duration in aggregate, regardless of the day or days on which that work is done.

2.14.2 The Chairperson of the SCT must certify the nature, reasonableness and duration of official business undertaken prior to any payment of fees to such a person.

2.14.3 Official business may include a hearing, preparation for a hearing, decision writing, checking and travel time other than for travel between the person's home and principal place of work.

2.14.4 The maximum payment in respect of any one day shall be the daily fee.

2.15 Daily Fee – Social Security Appeals Tribunal (SSAT): The following sub-clauses apply, (and clauses 2.4 to 2.7 and clauses 2.9 to 2.13 do not apply) in relation to a person who holds an office as a member of the SSAT on a part-time basis.

2.15.1 A daily fee is payable once such a person has undertaken official business of five hours duration in aggregate, regardless of the day or days on which that work is done.

2.15.2 The Principal Member of the SSAT is to certify the nature, reasonableness and duration of official business undertaken prior to any payment of fees to such a person.

2.15.3 Official business may include a hearing, preparation for a hearing, decision writing, checking and travel time other than for travel between the person's home and principal place of work.

2.15.4 In addition to fees specified a part-time member shall be paid a cancellation fee equivalent to 50 per cent of one day's fee for the cancellation of all work on a day with fewer than 5 working days' notice.

2.15.5 The maximum payment in respect of any one day shall be the daily fee.

PART 3 – CONDITIONS OF OFFICIAL TRAVEL

- 3.1 Official Travel Determination:** The provisions of Determination 2004/03 (as amended) – *Official Travel by Office Holders* – apply to offices covered by this Determination, subject to any exclusions or limitations in this Determination. In establishing entitlements, the Travel Tier identified in this Determination for an office will apply under Determination 2004/03.

SCHEDULE A – FEES AND ALLOWANCES FOR SPECIFIED OFFICES

Table A1A – Specified offices – annual and daily fees and travel tier. (Rates are effective from 1 July 2012 unless otherwise specified.)

General provisions relating to the following table:

- The fees set out in Table A1A below are payable in accordance with the conditions of this Determination to the holders of the relevant office.
- **In Columns 2 and 3:**
 - an "a" following the dollar amount signifies an Annual Fee applies;
 - a "d" following the dollar amount signifies a Daily Fee applies.
- The additional clauses referred to in Column 4 are listed immediately following the Table.

Column 1 Office/Authority	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses applying	Column 5 Travel tier
NBN Co Limited	204,710	a	102,400	a	A44	1
Future Fund	193,660	a	96,850	a		1
Australia Post	174,740	a	87,400	a	A1	1
Commonwealth Grants Commission	(full-time)		100,790	a		1
Fair Work Australia – Minimum Wage Panel Members	-		71,120	a		1
Review of the Distribution of the Goods and Services Tax	-		\$68,960	a		1
Australian Broadcasting Corporation (ABC)	160,740	a	\$52,910	a	A2	1
Commonwealth Superannuation Corporation (CSC)	127,020	a			A3, A8, A45	See A8
ASC Pty Ltd	125,510	a	62,810	a	A3, A4	1
Medibank Private Ltd	125,510	a	62,810	a	A3	1
Murray-Darling Basin Authority	105,770	a	62,780	a	A43	1
Reserve Bank of Australia			62,780	a		1
Airservices Australia	105,770	a	52,910	a	A3, A5	1
Australian Rail Track Corporation	105,770	a	52,910	a		1
Civil Aviation Safety Authority Board (CASA)	105,770	a	52,910	a	A3, A6	1
Commonwealth Scientific and Industrial Research Organisation (CSIRO)	105,770	a	52,910	a	A3, A7	1
Defence Housing Australia	105,770	a	52,910	a	A3	1
Commissioner, Australian Transport Safety Bureau Commission			52,910	a		1
Board of Taxation	103,000	a	51,500	a		1
Payments System Board	(full-time)		51,360	a		1
Australian Curriculum Assessment and Reporting Authority (ACARA)	91,020	a	903	d	A8, A40	See A8
Tourism Australia	89,060	a	44,580	a	A3, A9	1
Australian Institute for Teaching and School Leadership Ltd (AITSL)	88,360	a	881	d	A8, A10	See A8

Column 1 Office/Authority	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses applying	Column 5 Travel tier
Foreign Investment Review Board	87,500	a	47,500	a	A13	1
Innovation Australia Board	85,330	a	39,820	a		2
Innovation Australia Committee	14,270	a	8,380	a	A11	2
Innovation Australia Committee – Non Innovation Australia Board Member	913	d	913	d		2
Private Health Insurance Administration Council	80,950	a	47,270	a	A3	1
General Practice Education and Training Limited	80,950	a	36,570	a		1
Pharmaceutical Benefits Advisory Committee	(full-time)		35,880	a		1
Safety, Rehabilitation and Compensation Commission	80,950	a	34,230	a		1
Australian Solar Institute – Chair/Director	72,100	a	25,750	a	A42	1
National Health and Medical Research Council (NHMRC)	80,950	a	20,740	a	A8	See A8
NHMRC – Research Committee	71,290	a				2
NHMRC – Australian Health Ethics Committee	57,670	a				2
NHMRC – All other Principal Committees not specified in this Determination	57,670	a				2
International Air Services Commission	68,070	a	34,230	a		1
Medical Services Advisory Committee	68,070	a	681	d		1
Food Standards Australia New Zealand	67,770	a	34,230	a	A12	1
National Competition Council	64,290	a	34,230	a		1
Australian Commission on Safety and Quality in Health Care	61,800	a	20,600	a		2
Independent Hospital Pricing Authority (IHPA)	61,800	a	20,600	a		
Aboriginal Hostels Limited	61,760	a	33,490	a		2
Indigenous Land Corporation	61,760	a	33,490	a	A3, A13	1
Outback Stores Pty Ltd – Chair/Director	61,760	a	33,490	a		2
Australian Hearing Services	61,760	a	27,030	a	A3	1
Australian Heritage Council	61,760	a	27,030	a		1
Australian Heritage Council – Associate Member			27,030	a		1
Australian Maritime Safety Authority	61,760	a	27,030	a	A3, A13	1
Australian Nuclear Science and Technology Organisation Board (ANSTO)	61,760	a	27,030	a	A3, A13	1
Export Finance and Insurance Corporation	61,760	a	27,030	a	A3, A13, A14	1

Column 1 Office/Authority	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses applying	Column 5 Travel tier
Indigenous Business Australia	61,760	a	27,030	a	A3, A13	1
Special Broadcasting Service	61,760	a	27,030	a	A13	1
Australian Electoral Commission	61,760	a				1
Independent Hospital Pricing Authority (IHPA)	61,800	a	20,600	a		2
National Offshore Petroleum Safety Authority Board	54,020	a	27,030	a		1
Australian Organ and Tissue Donation and Transplantation Authority Advisory Council	54,020	a	659	d		2
Health Workforce Australia	54,020	a	659	d		2
Aged Care Standards and Accreditation Agency	51,360	a	27,030	a		1
Australian Sports Commission	51,360	a	27,030	a	A3, A15	1
National Rural Advisory Council	51,360	a	27,030	a		1
Screen Australia	51,360	a	27,030	a	A16	1
Australian Sports Anti-Doping Authority	(full-time)		27,030	a	A15	2
Albury-Wodonga Development Corporation	51,360	a	25,770	a		1
National Capital Authority	51,360	a	20,740	a		1
Great Barrier Reef Marine Park Authority	(full-time)		20,740	a		2
Australia Council	51,360	a	14,700	a	A15	1
Safe Work Australia	51,360	a	-			2
National Health Performance Authority	41,200	a	20,600	a	A18	2
Australian Institute of Marine Science Council	40,510	a	20,740	a	A17	2
Cancer Australia Advisory Council	40,510	a	20,740	a		2
Frontline Defence Services (AAFCANS)	40,510	a	20,740	a	A3	2
Sydney Harbour Federation Trust	40,510	a	20,740	a	A3	2
Radiation Health and Safety Advisory Council	40,510	a	-			2
Australian Technical Advisory Group on Immunisation	38,950	a	691	d		1
Council for the Australian Film Television and Radio School	35,820	a	17,930	a	A3	2
Defence Strategic Reform Advisory Board	29,830	a	19,890	a		1
ARC College of Experts	29,370	a	20,740	a		2
Australian Sports Drug Medical Advisory Committee	29,370	a	20,740	a		2

Column 1 Office/Authority	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses applying	Column 5 Travel tier
Australia Business Arts Foundation	29,370	<i>a</i>	14,270	<i>a</i>	A19	1
Australian National Maritime Museum Council	29,370	<i>a</i>	14,700	<i>a</i>		2
Australian National Maritime Museum – Member of a Committee (other than a council member)			691	<i>d</i>		2
Australian War Memorial Council	29,370	<i>a</i>	14,700	<i>a</i>		2
National Gallery of Australia Council	29,370	<i>a</i>	14,700	<i>a</i>	A19	2
National Library of Australia Council	29,370	<i>a</i>	14,700	<i>a</i>	A19	2
National Museum of Australia Council	29,370	<i>a</i>	14,700	<i>a</i>		2
Australian Statistics Advisory Council	29,370	<i>a</i>	-			1
Public Lending Right Committee	29,370	<i>a</i>	-			2
Classification Review Board	27,720	<i>a</i>	775	<i>d</i>	A20	2
Defence Reserves Support Council (DRSC) – National Executive	24,750	<i>a</i>	21,060	<i>a</i>		2
DRSC – State/Territory Chairs	480	<i>d</i>	-			2
Australian Pesticides & Veterinary Medicines Authority – Advisory Board	23,460	<i>a</i>	681	<i>d</i>		2
Australian Institute of Health and Welfare	21,320	<i>a</i>	616	<i>d</i>		2
Australia Council, Boards	21,320	<i>a</i>	-			2
Advisory Panel on the Marketing In Australia of Infant Formula	16,920	<i>a</i>	-			2
Professional Services Review – Committees	1,312	<i>d</i>	1,164	<i>d</i>		1
Professional Services Review – Determining Authority	1,312	<i>d</i>	1,164	<i>d</i>		1
Australian Energy Regulator	-		1,081	<i>d</i>		1
Companies Auditors and Liquidators Disciplinary Board	1,213	<i>d</i>	985	<i>d</i>	A22	1
Financial Reporting Panel	1,213	<i>d</i>	985	<i>d</i>	A23	1
Examiner, Australian Crime Commission	1,213	<i>d</i>	-		A41	1
Tax Practitioners Board (TPB) – Member	-		985	<i>d</i>	A24	2
TPB – Committee Member	-		681	<i>d</i>		2
Australian Renewable Energy Agency (ARENA)	1090	<i>d</i>	900	<i>d</i>		2
Co-operative Research Centres Committee	1,090	<i>d</i>	900	<i>d</i>		2
Education Investment Fund Advisory Board	1,090	<i>d</i>	900	<i>d</i>		1

Column 1 Office/Authority	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses applying	Column 5 Travel tier
Health and Hospitals Fund Advisory Board	1,090	<i>d</i>	900	<i>d</i>		1
Infrastructure Australia	1,090	<i>d</i>	900	<i>d</i>		1
Skills Australia	1,090	<i>d</i>	900	<i>d</i>		1
Specialist Medical Review Council (SMRC) – Convenor/councillor	1,090	<i>d</i>	900	<i>d</i>	A25	1
Australian Government Reconstruction Inspectorate	1,090	<i>d</i>	900	<i>d</i>		1
Ministerial Advisory Council on Regional Australia (MACRA)	1,090	<i>d</i>	900	<i>d</i>		1
Regional Development Australia Fund Advisory Panel	1,090	<i>d</i>	900	<i>d</i>		1
Higher Education Standards Panel (HESP)	1,058	<i>d</i>	873	<i>d</i>		2
National Transport Commission	1,004	<i>d</i>	900	<i>d</i>		1
ACCC – Associate Member	-		900	<i>d</i>		1
ACMA – Associate Member	-		900	<i>d</i>		1
Prime Minister's Science, Engineering and Innovation Council	-		900	<i>d</i>		1
Administrative Review Council	1,004	<i>d</i>	833	<i>d</i>		1
Migration Review Tribunal	-		831	<i>d</i>	A29	2
Refugee Review Tribunal	-		831	<i>d</i>	A30	2
Superannuation Complaints Tribunal	(full-time)		831	<i>d</i>		2
Family Law Council	1,004	<i>d</i>	828	<i>d</i>		1
Comcover Advisory Council	-		828	<i>d</i>		1
Productivity Commission	(full-time)		828	<i>d</i>		1
Patent and Trade Marks Attorneys Disciplinary Tribunal	985	<i>d</i>	-			2
Threatened Species Scientific Committee	976	<i>d</i>	654	<i>d</i>		1
Australian Reinsurance Pool Corporation	965	<i>d</i>	795	<i>d</i>		1
Takeovers ² Panel	900	<i>d</i>	900	<i>d</i>	A26	1
Repatriation Medical Authority	900	<i>d</i>	798	<i>d</i>	A27	1
Anti-Doping Research Program Panel	-		798	<i>d</i>		1
Defence Force Advocate	-		798	<i>d</i>	A28	1
Defence Force Remuneration Tribunal	-		798	<i>d</i>		1

Column 1 Office/Authority	Column 2 Chair \$	Column 3 Member \$	Column 4 Additional clauses applying	Column 5 Travel tier
Pharmaceutical Benefits Remuneration Tribunal	(full-time)	798	<i>d</i>	1
Social Security Appeals Tribunal (SSAT) Member	-	775	<i>d</i>	A34 3
Independent Hospital Pricing Authority Clinical Advisory Committee (IHPA CAC)	900	<i>d</i> 681	<i>d</i>	A46 1
Gene Technology Ethics and Community Consultative Committee	900	<i>d</i> 681	<i>d</i>	A31 1
Gene Technology Technical Advisory Committee	900	<i>d</i> 681	<i>d</i>	A31 1
National Film and Sound Archive	900	<i>d</i> 681	<i>d</i>	A32 2
Official Establishments Trust	900	<i>d</i> 681	<i>d</i>	1
Oil Stewardship Advisory Council	900	<i>d</i> 681	<i>d</i>	1
Pharmaceutical Benefits Pricing Authority	900	<i>d</i> 681	<i>d</i>	1
Professional Committees in Health and Ageing (listed in Schedule B)	900	<i>d</i> 681	<i>d</i>	1
Professional Standards Board for Patent and Trade Marks Attorneys	900	<i>d</i> 681	<i>d</i>	1
Tuition Protection Service (TPS) Advisory Board	900	<i>d</i> 418	<i>d</i>	A21 2
Seafarers Safety, Rehabilitation and Compensation Authority	900	<i>d</i> -		A33 1
Tasmanian Freight Equalisation Scheme Review Authority	900	<i>d</i> -		1
National Mental Health Commission (Chair/Commissioner)	898	<i>d</i> 681	<i>d</i>	2
National Blood Authority	866	<i>d</i> 656	<i>d</i>	1
Defence Science and Technology Organisation Advisory Board	833	<i>d</i> 681	<i>d</i>	2
Corporations and Markets Advisory Committee (Convener/Member)	828	<i>d</i> 753	<i>d</i>	1
Australian Community Pharmacy Authority	828	<i>d</i> 681	<i>d</i>	2
Australian National Council on Drugs	828	<i>d</i> 681	<i>d</i>	A35 2
Australian River Co. Ltd	828	<i>d</i> 681	<i>d</i>	A36 2
Co-operative Research Centres Appraisal Panels	828	<i>d</i> 681	<i>d</i>	2
Regional Telecommunications Independent Review Committee	828	<i>d</i> 681	<i>d</i>	2
Disciplinary Appeal Committees under <i>PE(CT) Regulations 1999</i>	828	<i>d</i> -		2
Commission for International Agricultural Research	798	<i>d</i> 581	<i>d</i>	2

Column 1 Office/Authority	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses applying	Column 5 Travel tier
Biological Diversity Advisory Committee	798	<i>d</i>	506	<i>d</i>		2
Fuel Standards Consultative Committee	798	<i>d</i>	506	<i>d</i>		2
Indigenous Advisory Committee	798	<i>d</i>	506	<i>d</i>		2
Australian Astronomical Observatory Advisory Committee (AAOAC)	798	<i>d</i>	506	<i>d</i>		2
Disability Standards Review Panel	798	<i>d</i>	418	<i>d</i>		2
National Housing Supply Council	798	<i>d</i>	-			2
Australian National Preventive Health Agency (ANPHA) Advisory Council	797	<i>d</i>	531	<i>d</i>		2
Geographical Indications Committee	768	<i>d</i>	681	<i>d</i>		2
Australian Strategic Policy Institute	768	<i>d</i>	622	<i>d</i>		2
Australian Social Inclusion Board	768	<i>d</i>	606	<i>d</i>		2
Veterans' Review Board (Senior Member; Member)	758	<i>d</i>	676	<i>d</i>		2
ABC Advisory Council	681	<i>d</i>	606	<i>d</i>		2
Anti-Doping Rule Violation Panel	681	<i>d</i>	606	<i>d</i>		2
Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS)	681	<i>d</i>	606	<i>d</i>		2
AIATSIS Research Advisory Committee	-		423	<i>d</i>		2
National Archives of Australia Advisory Council	681	<i>d</i>	606	<i>d</i>		2
National Customs Brokers Licensing Advisory Committee	681	<i>d</i>	606	<i>d</i>		2
Editorial Advisory Board	681	<i>d</i>	-		A37	2
Defence Industry Study Course	681	<i>d</i>	-			2
Religious Advisory Committee to the Services	606	<i>d</i>	606	<i>d</i>		2
National Rural Advisory Council – Specialist Committees	-		606	<i>d</i>		2
Defence Force Case Assessment Panel	564	<i>d</i>	518	<i>d</i>		2
Military Superannuation and Benefits Scheme Reconsideration Committee	564	<i>d</i>	518	<i>d</i>		2
ARIA Reconsideration Advisory Committee			518	<i>d</i>		2
Aboriginals Benefit Account Advisory Committee (ABAAC)	564	<i>d</i>	418	<i>d</i>		2
ASADA – Advisory Group	564	<i>d</i>	418	<i>d</i>		2
CSIRO – Advisory Committees	564	<i>d</i>	418	<i>d</i>		2
Medical Training Review Panel	-		418	<i>d</i>		2

Column 1 Office/Authority	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses applying	Column 5 Travel tier
Ministerial Advisory Committee on Blood Borne Viruses and Sexually Transmissible Infections	418	d	314	d	A38	2
Defence Families of Australia	418	d	-			2
Australian Bravery Decorations Council	No fee		No fee			1
Council for the Order of Australia	No fee		No fee			1
Central Trades Committee	-		No fee			2
Local Trades Committee	-		No fee			2
Military Rehabilitation and Compensation Commission	No fee		No fee		A39	2

ADDITIONAL CLAUSES TO TABLE A1A

A1. Australia Post: A member who is appointed as a Deputy Chair will receive an additional \$10,115 per annum. A member who is appointed to the Audit Committee will receive an additional \$10,115 per annum as member, or \$20,210 per annum as Chair, of the Committee. A member who is appointed to the Board of Postcorp will receive an additional \$4,553 per annum.

A2. Australian Broadcasting Corporation (ABC): A member who is appointed as a Deputy Chair will receive \$79,340 per annum.

A3. Various bodies: A member of the named body who is the Chair of the Audit Committee, or Audit and Risk Committee, however named, will receive an additional \$14,700 per annum. A member who is a member of the Committee will receive an additional \$7,350 per annum.

A4. ASC Pty Ltd: A Member who is the Chair of the Business Assurance and Security (BAS) Committee will receive an additional \$14,120 per annum. A Member who is member of the BAS Committee will receive an additional \$7,056 per annum.

A5. Airservices Australia: A member who is appointed as Deputy Chair will receive an additional fee of \$7,350 per annum.

A6. Civil Aviation Safety Authority (CASA) Board: A member who is appointed a Deputy Chair will receive \$60,250 per annum.

A7. Commonwealth Scientific and Industrial Research Organisation (CSIRO): An additional per diem payment of \$81.1 shall be paid to members of CSIRO who serve on the boards of subsidiaries/associated commercial enterprises.

A8. Various: The Chair is entitled to Tier 1 travel arrangements. Members/Directors are entitled to Tier 2 travel arrangements.

A9. Tourism Australia: A member who is appointed as Deputy Chair will receive \$59,190 per annum.

A10. Australian Institute for Teaching and School Leadership Ltd (AITSL): The Deputy Chair will receive \$66,280 per annum. The Deputy Chair is entitled to Tier 1 Travel arrangements.

A11. Innovation Australia: The Chair and Members of the Innovation Australia Board shall only receive remuneration for one Committee.

A12. Food Standards Australia New Zealand: A Member who is the Chair of the Finance, Audit and Risk Management (FARM) Committee will receive an additional \$8,807 per annum. A Member who is member of the FARM Committee will receive an additional \$4,404 per annum.

- A13. Various:** A member of the named body who is appointed as a Deputy Chair will receive \$40,510 per annum.
- A14. Export Finance and Insurance Corporation (EFIC):** A member who is the Chair of EFIC's Alliance and Contingent Divestment Implementation Committee will receive an additional pro-rata payment of \$8,807 per annum. A member who is a member of EFIC's Alliance and Contingent Divestment Implementation Committee will receive an additional pro-rata payment of \$4,404 per annum.
- A15. Various:** A member of the named body who is appointed as a Deputy Chair will receive \$30,110 per annum.
- A16. Screen Australia:** A member who is appointed as a Deputy Chair will receive \$27,030 per annum. A member who is chair of the Audit Committee will receive an additional \$8,817 per annum. A member who is a member of the Audit Committee will receive an additional \$4,409 per annum.
- A17. Australian Institute of Marine Science:** A member who is chair of the Audit Committee will receive an additional \$8,807 per annum. A member who is a member of the Audit Committee will receive an additional \$4,404 per annum.
- A18. National Health Performance Authority:** The Deputy Chair will receive \$30,900 per annum.
- A19. Various:** A member of the named body who is appointed as a Deputy Chair will receive \$20,740 per annum.
- A20. Classification Review Board:** A member who is appointed as a Deputy Convener will receive \$794 per day. In addition, when the Deputy Convener acts as Convener, he or she will be entitled to the remuneration and other conditions determined for the Convener.
- A21. Tuition Protection Service (TPS):** The Advisory Board Chair will receive an additional \$159 per day until 30 June 2013.
- A22. Company Auditors and Liquidators Disciplinary Board:** The Deputy Chairman will receive \$1,109 per diem.
- A23. Financial Reporting Panel:** The Chair rate will apply to a member on any day that the member chairs a Panel.
- A24. Tax Practitioners Board (TPB):** The maximum fees payable each year to part-time Members of the Tax Practitioners Board are capped at 80% of the sum of the base salary payable each year to a full-time Member.
- A25. Specialist Medical Review Council (SMRC):** In addition to the relevant daily fee, the Convener will receive a retainer of \$26,600 per annum. A councillor who is appointed as a presiding councillor under subsection 196ZK(3) of the *Veterans' Entitlements Act 1986* will, in addition to the relevant daily fee, receive a retainer of \$17,930 per annum.
- A26. Takeovers Panel:** Daily fees are only payable for sitting days of takeover proceedings and for Panel days. Remuneration for other business is by way of an annual fee of \$19,400 for the Chairman and \$3,247 for the Members.
- A27. Repatriation Medical Authority:** Retainers of \$53,130 for the Chairperson and \$35,410 for the Members will be payable.
- A28. Defence Force Advocate:** Fees payable for work done within s.58T (c) of the *Defence Act 1903* shall be the maximum daily rate as determined for senior counsel in the Australian Government Solicitor's Commonwealth Policy on Counsel Fees.
- A29. Migration Review Tribunal:** Members of the Migration Review Tribunal receive a daily fee for seven hours work (which may be cumulative over several days).
- A30. Refugee Review Tribunal:** Members of the Refugee Review Tribunal receive a daily fee for seven hours work (which may be cumulative over several days).
- A31. Gene Technology Committees:** an Expert Adviser appointed to either the Gene Technology Technical Advisory Committee or the Gene Technology Ethics and Community Consultative Committee will receive \$681 per day and is entitled to Tier 1 Travel.

A32. National Film and Sound Archive: A member who is appointed as a Deputy Chair will receive \$681 per day.

A33. Seafarers Safety, Rehabilitation and Compensation Authority: A member who is appointed as a Deputy Chair will receive \$828 per day.

A34. Social Security Appeals Tribunal (SSAT): The maximum fees payable each year to part-time SSAT Members are capped at 80% of the sum of the base salary determined for full-time Senior Members. A member who is qualified to practise as a medical practitioner shall receive a minimum annual payment of ten times the daily fee.

A35. Australian National Council on Drugs: A member who is appointed as a Deputy Chairman will receive \$743 per day.

A36. Australian River Company: Mr E G Anson shall receive additional remuneration of \$55,460 per annum, on a pro-rata basis, for periods where he has the approval of the Board to perform executive duties. A member who is appointed as a Deputy Chair will receive \$753 per day.

A37. Editorial Advisory Board: Subject to a minimum payment of \$3,085 per annum.

A38. Ministerial Advisory Committee on Blood Borne Viruses and Sexually Transmissible Infections (MACBBVSTI): Members appointed as organisational representatives, such as Federal Parliamentarians and State/Territory Officials, will not receive the travel allowance determined for MACBBVSTI Members if they have an entitlement to travel allowance from a different source.

A39. Military Rehabilitation and Compensation Commission: Where a member has an entitlement to Tier 1 travel by virtue of a full-time appointment, that entitlement will also apply to this Office.

A40. Australian Curriculum Assessment and Reporting Authority (ACARA): The Deputy Chair will receive \$68,270 per annum, and is entitled to Tier 1 Travel.

A41. Examiner, Australian Crime Commission: The maximum amount an Examiner who is paid by way of daily fees can be paid in one year is \$206,920.

A42. Australian Solar Institute (ASI): A director who is chair of the Audit and Risk Committee will receive an additional \$5,150 per annum. A member who is a member of the Audit and Risk Committee will receive an additional \$2,060 per annum.

A43. Murray-Darling Basin Authority: While Mr Craig Knowles occupies the office of Chair, he will receive an annual fee of \$67,400.

A44. NBN Co Limited: A member who is appointed as Deputy Chair will receive an additional fee of \$62,410 per annum. The Deputy Chair is entitled to Tier 1 Travel arrangements.

A45. Commonwealth Superannuation Corporation (CSC): The Director will receive \$60,750 per annum.

A46. Independent Hospital Pricing Authority Clinical Advisory Committee (IHPA CAC): These rates will apply until 30 September 2012.

Table A2A – Specified offices – base and meeting fees and travel tier. (Rates are effective from 1 July 2012 unless otherwise specified.)

General provisions relating to the following table:

- The fees set out in Table A2A below are payable in accordance with the conditions of this Determination to the holders of the relevant office.
- The additional clauses referred to in Column 4 are listed immediately following the Table.

Column 1 Office/Authority	Column 2 Base fee \$	Column 3 Meeting fee \$	Column 4 Additional clauses applying	Column 5 Travel tier
Climate Change Authority - Chair	51,500	1000		2
Member	25,750	800		
Telecommunications Universal Service Management Agency (TUSMA) - Chair	41,200	800	A2A-1	2
Member	25,750	500		
Road Safety Remuneration Tribunal (RSRT)	36,050	500		1
National Water Commission - Chair	51,500	800		2
Commissioner	25,750	500		
Clean Energy Regulator - Member	25,750	900	A2A-2	1
Independent Assessor - Special Building Industry Powers	20,600	-	A2A-3	2
Woomera Prohibited Area Advisory Board (WPAAB) - Independent Chair	10,300	800		2

ADDITIONAL CLAUSES TO TABLE A2A

A2A-1 Telecommunications Universal Service Management Agency (TUSMA): The Chair will receive an additional establishment loading of \$15,000 per annum until 30 June 2013.

A2A-2 Clean Energy Regulator: A maximum cap of 15 daily meeting fees will be paid each calendar year. Meeting fees are not payable for any meetings which exceed this 15 meeting fee cap.

~~**A2A-3. Independent Assessor – Special Building Industry Powers:** The base fee includes payment for the first 20 full days of work, in any given financial year, where a day is an aggregate of at least 7 hours, after which a daily fee of \$824 per day of work would apply.~~

SCHEDULE B – PROFESSIONAL COMMITTEES – HEALTH AND AGEING PORTFOLIO

B1. The Offices in subclause B1.1 are defined as Professional Committees in the Health and Ageing Portfolio. As determined in Table A1A of Schedule A, the entitlements of these committees are as follows.

- Chair \$900 per day
- Member \$681 per day
- Travel Tier 1

B1.1 Professional Committees

- Advisory Committee for Biologicals
- Advisory Committee on Chemicals Scheduling
- Advisory Committee on Complementary Medicines
- Advisory Committee on Medical Devices
- Advisory Committee on Medicines Scheduling
- Advisory Committee on Prescription Medicines
- Advisory Committee on Non-Prescription Medicines
- Advisory Committee on the Safety of Medical Devices
- Advisory Committee on the Safety of Medicines
- Australian Commission on Safety and Quality in Health Care – Expert Committees
- Medicare Participation Review Committees
- National Aboriginal and Torres Strait Islander Health Equality Council
- National Medicines Policy Committee
- National Pathology Accreditation Advisory Council
- Pathology Services Table Committee
- Pharmaceutical Services Committee of Inquiry
- Therapeutic Goods Committee

SCHEDULE C – FEES AND ALLOWANCES FOR PRIMARY INDUSTRY AUTHORITIES

General provisions relating to the following table:

- The fees set out in Table C1A below are payable in accordance with the conditions of this Determination to the holders of the relevant office.
- ***In Columns 2 and 3:***
 - ***an "a" following the dollar amount signifies an Annual Fee applies;***
 - ***a "d" following the dollar amount signifies a Daily Fee applies.***
- The additional clauses referred to in Column 4 are listed immediately following the Table.

Table C1A – Primary Industry Authorities – fees and travel tier. (Rates are effective from 1 July 2012 unless otherwise specified.)

Column 1 Authority/Office	Column 2 Chair \$		Column 3 Member \$		Column 4 Additional clauses	Column 5 Travel Tier
Australian Fisheries Management Authority Commission	65,270	<i>a</i>	32,830	<i>a</i>	C1	1
Grains Research and Development Corporation	64,560	<i>a</i>	32,130	<i>a</i>	C2	1
Grape and Wine Research and Development Corporation	51,360	<i>a</i>	29,370	<i>a</i>		2
Wine Australia Corporation	51,360	<i>a</i>	29,230	<i>a</i>		2
Fisheries Research and Development Corporation	51,360	<i>a</i>	29,230	<i>a</i>		1
Rural Industries Research and Development Corporation	51,360	<i>a</i>	29,230	<i>a</i>	C3	1
Cotton Research and Development Corporation	40,510	<i>a</i>	20,740	<i>a</i>		2
Sugar Research and Development Corporation	40,510	<i>a</i>	20,740	<i>a</i>	C4	2
Fishing Industry Policy Council	35,820					2
Wheat Exports Australia	1,004	<i>d</i>	654	<i>d</i>		1
Wine Australia Corporation Selection Committee	828	<i>d</i>	-			1
Fisheries Research and Development Corporation Selection Committees	828	<i>d</i>	-			1
Committees of Research and Development Corps	681	<i>d</i>	606	<i>d</i>	C5	2
Statutory Fishing Rights Allocation Review Panel	681	<i>d</i>	606	<i>d</i>		2
Management Advisory Committees, Australian Fisheries Management Authority	606	<i>d</i>	418	<i>d</i>		2

ADDITIONAL CLAUSES TO SCHEDULE C

C1. Australian Fisheries Management Authority Commission: A member who is appointed as a Deputy Chair will receive \$32,830 per annum.

C2. Grains Research and Development Corporation: The Chair of the Finance, Risk and Audit Committee will receive an additional annual fee of \$14,700; whilst a member of the same committee will receive an additional annual fee of \$7,350.

C3. Rural Industries Research and Development Corporation: The Chair of the Audit Committee will receive an additional annual fee of \$8,897; whilst a member of the same Committee will receive an additional annual fee of \$4,404.

C4. Sugar Research and Development Corporation: A Non-executive Director who sits on of the Audit Committee will receive an additional \$8,807 per annum as Chair of the Committee or \$4,404 per annum as Member of the Committee.

C5. Research & Development Corps: This entry refers to committees established under the *Primary Industries and Energy Research and Development Act 1989*.

SCHEDULE D – FEES AND ALLOWANCES FOR TORRES STRAIT REGIONAL AUTHORITY

General Provisions relating to the following table:

D1. Fees: The fees set out in Table D1A below are payable in accordance with this Determination to the holders of the relevant office.

D2. Aggregated hours: The office-holders specified in this Schedule shall be paid in accordance with the following conditions:

- (a) for formal meetings and/or business of the authority aggregating 6 hours or more on any one day – 100% of the daily fee;
- (b) for formal meetings and/or business of the authority aggregating 3 hours or more but less than 6 hours on any one day – 60% of the daily fee;
- (c) for formal meetings and/or business of the authority aggregating less than 3 hours on any one day – 40% of the daily fee; and
- (d) eligibility for each payment shall be certified by the chairperson or nominated presiding officer and in so certifying the chairperson may have regard to reasonable travelling time incurred by an office holder away from the metropolitan area of the capital city or the environs of the town in which the office holder lives.

Table D1A –Torres Strait Regional Authority – fees and travel tier. (Rates are effective from 1 July 2012 unless otherwise specified).

Office	Daily fee			Travel Tier
	Chair	Deputy Chair	Member	
Torres Strait Regional Authority (TSRA)	-	\$564	\$418	2
TSRA – Member Advisory Committees	-	-	\$418	2

SCHEDULE E – FEES AND ALLOWANCES FOR ABORIGINAL LAND COUNCILS

General Provisions relating to the following table:

- **Fees:** The fees set out in Table E1A below are payable in accordance with this Determination to the holders of the relevant office.

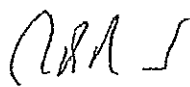
Table E1A – Holders of Public Offices in Aboriginal Land Councils. (Rates are effective from 1 July 2012 unless otherwise specified.)

Office	Rate of Salary or Fee		Travel Tier
	\$	Frequency	
NORTHERN LAND COUNCIL			
Chairman If engaged part-time on the functions and duties of the office	681	Daily, maximum one per day	2
Member If engaged on general Council business	272	Daily, maximum one per day	2
If engaged on business of the executive	388	Daily, maximum one per day	2
CENTRAL LAND COUNCIL			
Chairman If engaged part-time on the functions and duties of the office	681	Daily, maximum one per day	2
Member If engaged on general Council business	272	Daily, maximum one per day	2
If engaged on business of the executive	388	Daily, maximum one per day	2
TIWI LAND COUNCIL			
Chairman	52,080	Annual fee	2
Deputy Chairman	29,370	Annual fee	2
Member, Management Committee	29,370	Annual fee	2
ANINDILYAKWA LAND COUNCIL			
Chairman If engaged part-time on the functions and duties of the office	598	Daily, maximum one per day	2
Member	272	Daily, maximum one per day	2

Signed this 19th day of June 2012.



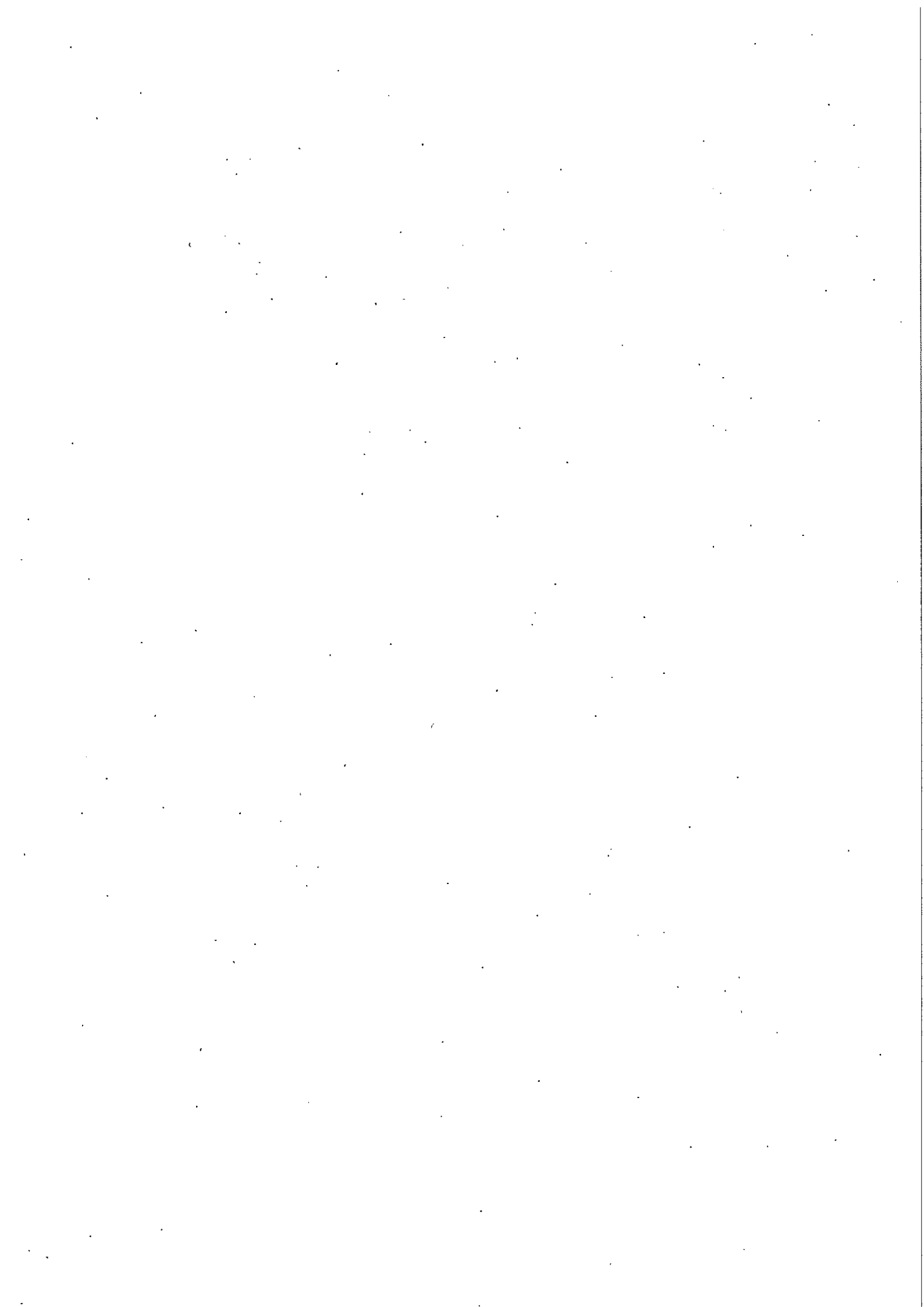
John C Conde AO
PRESIDENT



John B Prescott AC
MEMBER



Jillian Segal AM
MEMBER





Finance Circular No. 2008/03

To all Commonwealth authorities and wholly-owned Commonwealth companies under the *Commonwealth Authorities and Companies Act 1997* and Departments of State

Audit committees for Commonwealth authorities and wholly-owned Commonwealth companies

Purpose

To assist Commonwealth authorities and wholly-owned Commonwealth companies under the *Commonwealth Authorities and Companies Act 1997* (CAC Act) to comply with regulations prescribing the composition of their audit committees.

The arrangements set out in this Finance Circular become effective on 1 January 2009. Wherever feasible, early adoption of the arrangements is encouraged.

Target Audience

This Circular is directly relevant to directors, senior managers, chief financial officers and members of audit committees of Commonwealth authorities and wholly-owned Commonwealth companies (relevant CAC Act bodies). It is also relevant for officials in Departments of State who support Ministers with their responsibilities for relevant CAC Act bodies.

Key Points

1. The CAC Act provides that all relevant CAC Act bodies must establish and maintain an audit committee with functions that include:
 - helping the body and its directors to comply with obligations under the CAC Act (and the *Corporations Act 2001* for wholly-owned Commonwealth companies); and
 - providing a forum for communication between the directors, the senior managers of the body and the internal and external auditors of the body.¹

¹ CAC Act, section 32 (Commonwealth authorities) and 44 (wholly-owned Commonwealth companies).

2. In addition to the above stated functions, audit committees may undertake a number of other functions, including, for example, providing an accountability mechanism for the directors of relevant CAC Act bodies on the performance of management.

3. Subsections 32(2) and 44(2) of the CAC Act, in relation to Commonwealth authorities and wholly-owned Commonwealth companies respectively, provide that if regulations state how the audit committee is to be constituted, the committee must be constituted in accordance with the regulations.

4. Regulation 6A of the *Commonwealth Authorities and Companies Regulations 1997* (CAC Regulations) prescribes the composition of audit committees for Commonwealth authorities. Regulation 6B prescribes the composition of audit committees for wholly-owned Commonwealth companies (refer Attachment A). Regulations 6A and 6B (the regulations) commence on 1 January 2009, and relevant CAC Act bodies should ensure that their audit committees are constituted in accordance with the regulations before the commencement date, unless an exemption has been provided (refer paragraph 17).

Background

5. An effective audit committee contributes to strong audit and governance arrangements. There has been an increased recognition of the importance of audit committees in both the public and private sectors, and publications and standards discussing audit committee arrangements have been released by a number of bodies, including the Australian National Audit Office (ANAO),² the Australian Securities Exchange,³ the Australian Institute of Company Directors,⁴ the Australian Prudential Regulation Authority⁵ and Standards Australia.⁶ The *Review of the Corporate Governance of Statutory Authorities and Office Holders* also discusses governance arrangements for audit committees.⁷

6. The regulations aim to ensure that relevant CAC Act bodies establish appropriately constituted audit committees, taking into account the governance arrangements for these bodies in the public sector. This is consistent with other initiatives to improve the governance arrangements of CAC Act bodies (refer, for example, to the reporting requirements on compliance and financial sustainability described in Finance Circular 2006/11: *Compliance Reporting – CAC Act Bodies*).

7. The regulations do not apply to Commonwealth companies that are partly-owned by the Commonwealth (that is, are not 'wholly-owned' for the purposes of the CAC Act). Nor do the regulations apply to other companies in which the Australian Government is involved, but are not Commonwealth companies under the CAC Act (that is, there is insufficient control by the Commonwealth for them to be a Commonwealth company). However, Departments of State

² ANAO, *Public Sector Audit Committees; Better Practice Guide*, 2005 (ANAO Audit Committees Better Practice Guide) and ANAO, *Public Sector Internal Audit; Better Practice Guide*, 2007.

³ ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 2nd ed, 2007 (ASX Guidelines).

⁴ Australian Institute of Company Directors, *Audit Committees: A Guide to Good Practice*, 2008.

⁵ Australian Prudential Regulatory Authority, *Prudential Standard APS 510*, May 2006 (APS 510).

⁶ Standards Australia International, *AS 8000-2003 Good Governance Principles*, 2003.

⁷ Uhrig J, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, June 2003 (Uhrig Review).

supporting the Minister responsible for these bodies may wish to bring this Finance Circular to the attention of these bodies when contemplating the constitution of their audit committees.

Composition of Audit Committees

8. The regulations prescribe the base requirements for the composition of audit committees of CAC Act bodies.
9. The regulations provide:
- The chair of the committee must not be the chair of the body.⁸
 - The chair of the committee must also not be an executive director of the body⁹ but committee may include one person who is an executive director of the body.
 - The committee must have at least three members.¹⁰
 - No senior managers or other employees of the body, other than a single executive director, may be members of the committee.
 - The quorum for meetings of the committee is the greater of two persons or a majority of the committee.
10. The regulations allow relevant CAC Act bodies to appoint a single executive director to the audit committee. An executive director is someone who is both a director and a senior manager/employee of the body. This provision is intended to take into account the differences in the size and structure of relevant CAC Act bodies, and allow for circumstances where it may not be practical for a relevant CAC Act body to constitute an audit committee consisting of only non-executive directors and/or external members. However, wherever feasible, relevant CAC Act bodies should consider excluding executive directors from membership of their audit committee.¹¹
11. The regulations do not exclude employees and senior managers, or persons external to the CAC Act body, from being asked to attend meetings of the audit committee if their input is required on specific agenda items.
12. Relevant CAC Act bodies have the ability to build upon these requirements to constitute an audit committee that suits their particular size and operations. That is, the regulations provide a minimum standard, rather than a set standard.

External Members of Audit Committees

13. The regulations recognise that relevant CAC Act bodies may appoint external members to audit committees. External members can provide valuable expertise and independent judgement to audit committees.
14. If an external member to the audit committee is engaged, relevant CAC Act bodies should consider the contractual basis for engagement and how the obligations and responsibilities of

⁸ Refer ANAO Audit Committees Better Practice Guide, Part 1, p. 17; Uhrig Review, p. 97; and APS 510, p. 7, para 36.

⁹ Refer ANAO Audit Committees Better Practice Guide, Part 1, p. 18.

¹⁰ Refer ASX Guidelines, Recommendation 4.2, p. 25 and APS 510, p. 7, para 34.

¹¹ Refer ASX Guidelines, Recommendation 4.2, p. 25.

external members of audit committees will be set out, including obligations relating to use of information.

15. When appointing an external member to the audit committee, relevant CAC Act bodies should also consider the insurance and indemnity arrangements that will apply to external members. CAC Act bodies that are classified in the general government sector, should contact Comcover to discuss these arrangements on telephone 1800 651 540 or email comcover@comcover.com.au.

Audit Committee Arrangements in Small Entities and Other Bodies

16. The ANAO *Public Sector Audit Committees: Better Practice Guide* provides suggestions which may assist small entities to deal with potential issues involved in establishing a viable and effective audit committee. The guide suggests that 'there may be merit in these entities exploring ways of entering into contractual or cooperative arrangements with other entities within their portfolio to meet, in a cost-effective way, their legislative obligation to establish an Audit Committee.'¹² For example, this may be achieved through sharing arrangements with other bodies of a similar nature.

Exemptions to the Audit Committee Requirements

17. If a relevant CAC Act body considers that it will need an exemption from some or all of the requirements of the regulations, a request will need to be made to the Minister for Finance and Deregulation (Finance Minister) from the responsible Minister for that body.

18. If the Finance Minister supports an exemption in full or part, the Finance Minister can request that the Governor-General amend the CAC Regulations to exempt the CAC Act body from all or any aspect of the audit committee requirements.

19. Before seeking an exemption from the regulations, relevant CAC Act bodies should contact the Department of Finance and Deregulation (Finance) and the relevant Department of State to discuss their situation.

Compliance Report

20. In the absence of an exemption, if a relevant CAC Act body in the general government sector fails to establish and maintain an audit committee in accordance with the regulations, it will need to report this, with an explanation, in its annual compliance report (refer to Finance Circular 2006/11: *Compliance Reporting – CAC Act Bodies*).

Other Issues to Consider

21. While the regulations set a base standard for the composition of audit committees for relevant CAC Act bodies, there are many other aspects to the operations and functions of audit committees that will require consideration. Relevant CAC Act bodies are responsible for the effectiveness of their audit committee and in determining the committee's operations and functions.

¹² Refer ANAO Audit Committees Better Practice Guide, Part 1, p. 30.

22. In meeting these responsibilities, relevant CAC bodies may wish to consider a wide range of issues, including:

- **Independence:** Whether the audit committee is constituted with the highest, practical degree of independence from management influence.¹³
- **Skills and Experiences of Members:** Whether appointed members are financially literate, and whether at least one member has relevant financial qualifications and experience (such as a qualified accountant or another finance professional with experience in financial and accounting matters).
- **Orientation and Ongoing Development:** Whether appropriate orientation and ongoing professional development opportunities are provided to all members.
- **Tenure:** Whether members of the audit committee have been appointed for an appropriate tenure. The ANAO indicates that generally, an individual's tenure on the audit committee would be two or three years, with the option for reappointment for a further term.¹⁴
- **Adopting a Charter:** Whether the committee has a charter that sets out the operations of the committee, including how the committee will report to directors of the CAC Act body, and the resources, including external resources, which will be available to it.
- **Frequency of meeting:** Whether the frequency of audit committee meetings is sufficient to enable it to undertake its role effectively. The ANAO indicates that audit committees should meet at least four meetings a year.¹⁵ However, this could differ, depending on the size and scope of the operations of the body.
- **Quorum Requirements:** The regulations provide that the quorum for meetings of the committee is the greater of two persons or a majority of the committee. This is, however, a minimum, and CAC Act bodies may determine a higher quorum requirement, for example, of at least three members.
- **Assessment Process:** Whether there is a system to assess the performance of the audit committee. Where relevant, this may be part of a whole of board assessment process.

23. For further discussion of these issues, refer to the publications mentioned in paragraph 5.

Contacts

If you have any questions or comments about this Circular, please contact Legislative Review Branch at LRB@finance.gov.au or visit our website at www.finance.gov.au.

Mike Loudon
Division Manager
Financial Framework Division
23 May 2008

¹³ For further discussion on the issue of independence, refer to Ian Ramsay, *Independence of Australian Company Auditors*, Commonwealth of Australia, October 2001 (Ramsay Report), p. 86.

¹⁴ ANAO Audit Committees Better Practice Guide, p. 19.

¹⁵ ANAO Audit Committees Better Practice Guide, Part 1, p. 28.

Commonwealth Authorities and Companies Regulations regarding the composition of audit committees

6A Audit committees for Commonwealth authorities (Act, s 32)

(1) For subsection 32 (2) of the Act, the audit committee of a Commonwealth authority is to be constituted as follows:

(a) the chair of the committee must be a person other than:

(i) the chair of the authority; or

(ii) an executive director of the authority;

(b) the committee:

(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) must not include senior managers or employees of the authority other than the executive director mentioned in subparagraph (ii).

(2) To avoid doubt, a committee may include persons who are not directors of the authority.

Note 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.

(3) The quorum for meetings of the committee is:

(a) 2 persons; or

(b) if the majority of the committee is greater than 2 persons — that number of persons.

6B Audit committees for wholly-owned Commonwealth companies (Act, s 44)

(1) For subsection 44 (2) of the Act, the audit committee of a wholly-owned Commonwealth company is to be constituted as follows:

(a) the chair of the committee must be a person other than:

(i) the chair of the company; or

(ii) an executive director of the company;

(b) the committee:

(i) must be made up of at least 3 persons; and

(ii) may include only 1 person who is an executive director of the company; and

(iii) must not include senior managers or employees of the company other than the executive director mentioned in subparagraph (ii).

(2) To avoid doubt, a committee may include persons who are not directors of the company.

Note 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 company.

(3) The quorum for meetings of the committee is:

(a) 2 persons; or

(b) if the majority of the committee is greater than 2 persons — that number of persons.



Public Sector Audit Committees

INDEPENDENT ASSURANCE AND ADVICE
FOR CHIEF EXECUTIVES AND BOARDS



Better Practice Guide

August 2011

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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.

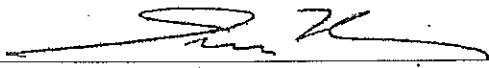
This Guide updates and replaces the Australian National Audit Office's (ANAO) 2005 *Public Sector Audit Committees* Better Practice Guide. While many of the principles and practices remain the same, this Guide incorporates a number of enhancements. These include a discussion on: a committee's responsibilities 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

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.

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

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.

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

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*.)

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>>.

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.

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

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.

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

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.

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)(i).

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.

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

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.

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.

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.

Audit Committee sub-committees should not assume management responsibilities.

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.

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.

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

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.

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

Better practice tip: Audit Committee support

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

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.

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.

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.

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

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

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.

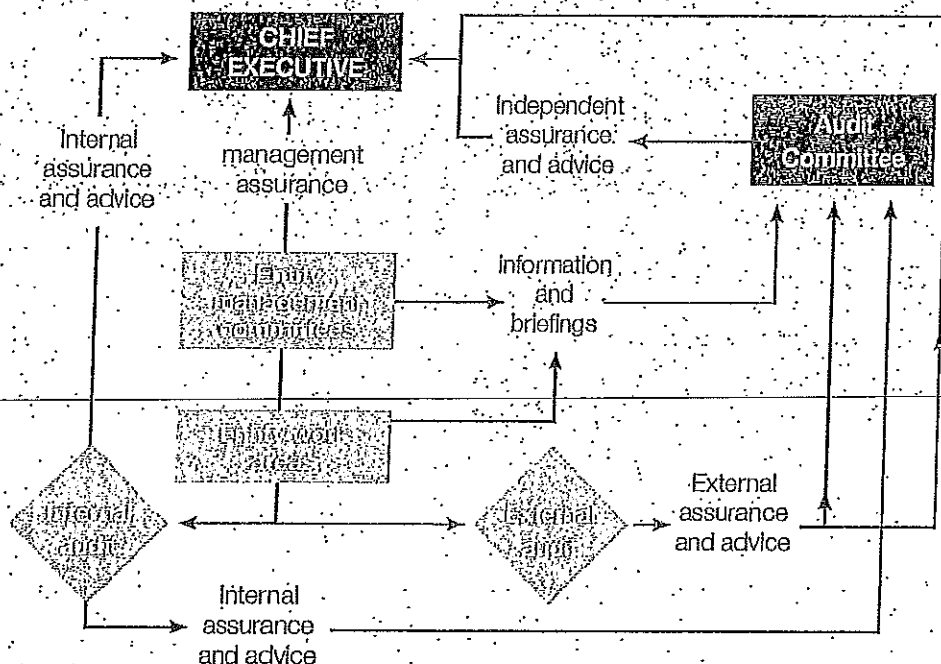
In FMA entities, the committee's membership is determined by the Chief Executive and the Chair can be a senior manager of the entity.

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.

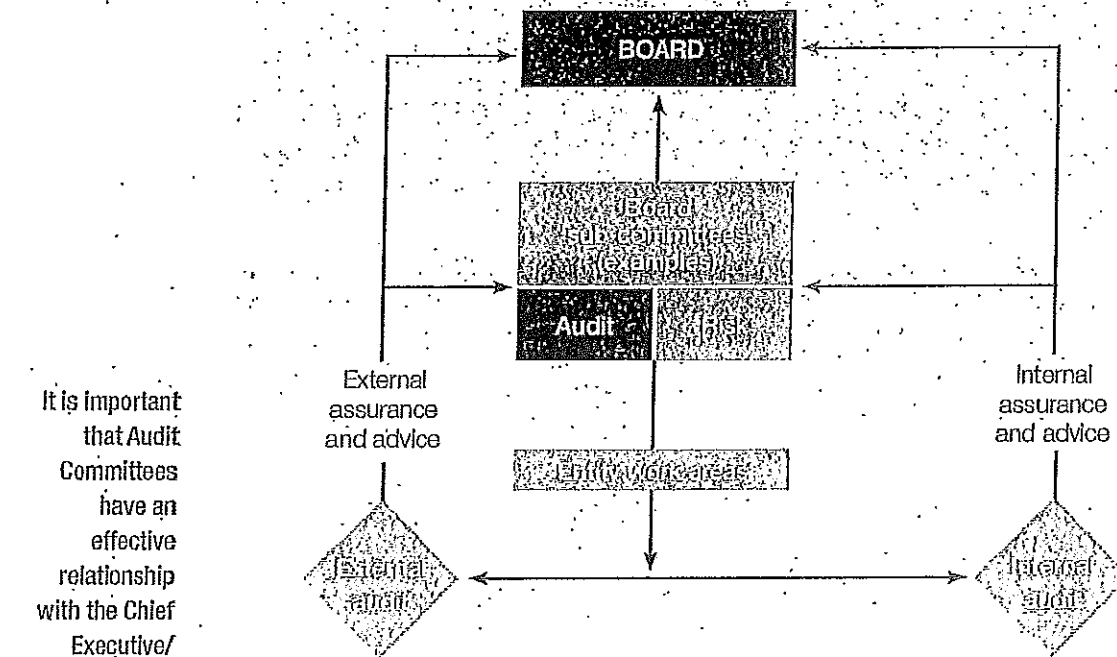
Illustration of provision of assurance and advice in an FMA entity



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

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

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>>.

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

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.

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

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

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.

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>>.

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

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

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.

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.

Audit Committees benefit from having a current forward meeting schedule.

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.

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:

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

- 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.

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
Finance Circular No. 2009/06 <i>Certificate of Compliance</i> - FMA Act agencies ⁴³	<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
CAC Act 1997	<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> <p>(i) the chair of the authority; or</p> <p>(ii) an executive director of the authority;</p> <p>(b) the committee:</p> <p>(i) must be made up of at least 3 persons; and</p> <p>(ii) may include only 1 person who is an executive director of the authority; and</p> <p>(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> <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> <p>(a) 2 persons; or</p> <p>(b) if the majority of the committee is greater than 2 persons — that number of persons.</p> <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)	Solve and level of assurance provided ⁽¹⁾				Overall assessment of level of assurance ⁽²⁾	Is level of assurance adequate?
	Work area ⁽³⁾	Work area ⁽³⁾	Management committees	Internal audit	Other assurance activities	Yes/No ⁽⁴⁾
Failure to recruit, develop and retain sufficient skilled staff to sustain core service-delivery at required levels.	low	moderate	(Human Resource Management) moderate	low	-	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	Yes
Failure to adequately manage the entity's complex contractual arrangements	low	moderate	(Executive Board) moderate	Low	-	No
Ineffective and/or inappropriate management of information.	low	low	(Information Management) moderate	moderate	-	Yes
Diminished stakeholder confidence, loss of confidence by the minister or government.	moderate	low	(Executive Board) moderate	low	-	No
Failure to comply with legislative requirements.	moderate	low	(Executive Board) moderate	moderate	(Certificate of Compliance) high	Yes
Ineffective financial management.	moderate	moderate	(Finance) moderate	moderate	(Audit Committee) High	Yes
Failure to work with or manage implementation partners.	moderate	low	(Executive Board) low	low	-	No
Unable to sustain efficient business processes and develop desired delivery solutions to meet business needs.	low	moderate	(Executive Board) moderate	low	-	No

- (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.