

Audit and Risk Committee Charter

April 2021



Australian Government
Department of Health



Audit and Risk Committee Charter

Introduction

The Secretary as the Accountable Authority of the Department of Health (the Department) is required to establish the Audit & Risk Committee (ARC or Committee) in accordance with subsection 45(1) of the Public Governance, Performance and Accountability Act 2013 (the Act).

As far as is practicable, the Committee should indicate which matters it will consider during any given year in a forward plan (the Forward Work Plan), noting that it may consider other or additional matters in response to changes in the Department's operations and environment. The Forward Work Plan forms part of and should be read in conjunction with the Charter.

The Committee is required to provide written advice to the Secretary in regard to the appropriateness of its functions.

Functions

The functions of the Committee comply with Section 17(1) of the *Public Governance, Performance and Accountability Rule 2014* (the Rule) which establishes mandatory functions for Audit Committees.

1. The Secretary of a Commonwealth entity must, by written charter, determine the functions of the audit committee for the entity.
2. The functions of the Committee include those mandated under Section 17(2) including reviewing the appropriateness of the Department of Health's: Financial Reporting; Performance Reporting; System of Risk Oversight and Management; and System of Internal Control.

Financial Reporting

The Committee, supported by the Financial Statement Sub-Committee, will provide written advice to the Secretary regarding the appropriateness of the Department's systems and processes for financial reporting.

The Committee may review:

- the Department's financial statements and financial statements for compliance with accounting standards and the PGPA Act and the Rule, having regard to any supporting guidance;
- the appropriateness of accounting policies and disclosures, including any significant changes to accounting policies;
- areas of significant judgement and financial statement balances that require estimation;
- significant or unusual transactions, and sign-off by the Department's management in relation to the quality of the financial statements, internal controls and compliance;
- whether appropriate management action has been taken in response to any issues raised by the Australian National Audit Office (ANAO), including financial statement adjustments or revised disclosures; and
- the auditor's judgments about the adequacy of the Department's accounting policies and the quality of the Department's processes for the preparation of the Department's financial statements, through discussions with the ANAO.

Performance Reporting

The Committee, supported by the Performance Reporting Sub-Committee, will provide written advice to the Secretary regarding the appropriateness of the Department's performance reporting as a whole. The Committee is to obtain advice and assurances in relation the Department's systems, processes and compliance for developing, measuring and reporting the achievement of the Department's performance.



In particular, this may include:

- Department's Portfolio Budget Statements and Corporate Plan include details of how the department's performance will be measured and assessed;
- Department's approach to measuring its performance throughout the financial year against the performance measures included in its Portfolio Budget Statements and Corporate Plan is sound, and has taken into account guidance issued by the Department of Finance;
- Department has sound processes in place for the preparation of its Annual Performance Statement and its inclusion in the Department's Annual Report; and
- Department proposed Performance Statement is consistent with the Department financial information, including its financial statements that it proposes to include in the Annual Report.

System of Risk Oversight and Management

The Committee will provide written advice to the Secretary regarding the appropriateness of the Department's system of risk oversight and management. The Committee may:

- review whether the Department's management has in place a current and sound enterprise risk management framework and associated internal controls for effective identification and management of the Department's and Secretary's risks;
- satisfy itself that management has followed a sound approach in managing the Department's highest risks including those associated with individual projects;
- review the process of developing and implementing the Department's fraud control arrangements and satisfy itself that the Department has appropriate processes and systems in place to detect, capture and effectively respond to fraud risks;
- review reports on fraud from management that outline any significant or systemic allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in the Department;
- review Department's Fraud Risk Assessment and Fraud and Corruption Control Plan, completed in accordance with Paragraph (a) of the Fraud Rule (Section 10 of the PGPA Act) and guidance Commonwealth Fraud Framework; and
- satisfy itself that the Department has appropriate systems and procedures in place to identify the Department's key assurance arrangements and is reviewed annually.

System of Internal Control

The Committee will provide written advice to the Secretary regarding the appropriateness of the Department's system of internal control. Based on the results of the Department's Internal Audit and Plan, this will include review of key elements of the Department's internal control framework, such as relevant policies and procedures, internal controls, and processes for monitoring the effectiveness of key controls and compliance with relevant policies and legislation. It will also include review of internal audit coverage, reporting and remedial action taken by management.

Internal audit function

The Committee will review the effectiveness of the internal audit function as a whole and:

- approve the Annual Internal Audit Work Program, ensuring that it is risk focused and covers any areas warranting specific attention and that the plan makes provision for appropriate co-ordination with the external auditor;
- monitor the implementation of the Annual Internal Audit Work Program, its scope and progress, including any restrictions on scope of activities, or significant disagreements with management;



- ensure significant findings and recommendations made by internal audit are received and discussed, and agreed actions are implemented in a timely manner; and
- review audit activity reports, complete with management responses to the significant audit issues raised.

External Audit function (ANAO)

The Committee will engage with the ANAO – the Department’s external auditor – in relation to the ANAO’s financial statement and performance audit coverage. In particular, the Committee will:

- review the external auditor’s proposed financial statements audit scope and audit approach, including materiality, for the current year in the light of the Department’s circumstances and changes in regulatory and other requirements;
- review and provide input and feedback on any performance audit coverage proposed or undertaken by the external auditor;
- regularly review with the external auditor any audit problems or difficulties encountered in the normal course of audit work including any restriction on audit scope or access to information;
- review and discuss significant findings and recommendations made by the external auditor on a timely basis and require that management respond promptly to recommendations made by the external auditors; and
- review and provide advice to the Committee on actions taken on significant issues raised in other relevant performance audit reports and better practice guides.

Committee Membership

Until 30 June 2021, the Committee will comprise of three Independent Members and one official of the Department. From 1 July 2021 the Committee will comprise of up to five Independent Members (in accordance with the PGPA rule). Senior executives of the Department may be appointed as Senior Advisors to the Committee. All appointments are made by the Secretary.

Committee Members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Department, including the functions of Department. At least one member of the Committee should have accounting or related financial management experience and/or qualifications, and a comprehensive understanding of accounting and auditing standards and at least one member of the Committee should have ICT-related experience and/or qualifications, and a comprehensive understanding of ICT risk management.

In appointing Members, consideration will be given to ensuring there is an appropriate balance between continuity of membership, the contribution of fresh perspectives, and a suitable mix of qualifications, knowledge, skills and experience.

Committee Members will be appointed for an initial period determined by the Secretary. The Chair of the Committee will be appointed for a minimum of at least two years, with an option to extend. An extension is exercisable following formal review of performance. Members will normally be appointed for a specified period not exceeding three years after which they will be eligible for re-appointment, following a formal review of their performance and subject to the complementary skills and experience of the other Members.

Departmental Advisors, as agreed by the Secretary and the Chair, may be appointed to support the Committee to fulfil its functions. These advisors will receive all papers and attend all meetings but are not considered part of the quorum and do not have voting rights. From 1 July, Departmental advisors will include a Senior Departmental Advisor appointed by the Secretary at a Deputy Secretary level.

Departmental staff can also be Observers.

Representatives from the ANAO and external providers of internal audit services but may attend meetings, in agreement with the Chair, as an Observer.



Committee Members must:

- understand and observe the legal requirements of the PGPA Act, PGPA Rule, PGPA Financial Reporting Rule and official guidance relevant to performing their functions;
- Identify changing relationships or circumstances that might affect their perceived independence and report them to the secretariat;
- act in an independent capacity as ARC members- not as agents of management; and
- have access to a program of induction by the secretariat, to help new committee members meet their commitments.

The Chair is:

- appointed by the Secretary;
- responsible for maintaining effective relationships with the Secretary, senior management and other committee members and stakeholders, including the ANAO;
- expected to lead ARC discussions and to manage meetings in an efficient and effective manner;
- meet with the Deputy Chair (pre 1 July 2021) and Senior Departmental Advisor (post 1 July 2021) on a quarterly basis; and
- in conjunction with the secretariat, responsible for implementing the Committee's agenda, work program, deliverables, leadership/culture/behaviour.

Sub-Committees

The Committee may establish sub-committees to support the performance of its functions. Such sub-committees must be chaired by a member of the Committee. Sub-committee's terms of reference will be approved by Committee. The establishment of such sub-committees does not change the Committee's functions under the Charter.

The actions of the sub-committee will be reported to the Committee at each meeting.

Planning

The Committee will develop a forward meeting schedule and annual work plan that includes the dates, location, and proposed agenda items for each meeting for the forthcoming year, and that covers all the functions and responsibilities outlined in this Charter.

Reporting

The Chair will report to the Secretary and the Executive Committee after each meeting. Any matter deemed of sufficient importance will be reported to the Secretary immediately.

The Committee will – as often as necessary and at least once a year – report formally to the Secretary on its operation and activities during the year.

Meetings

The Committee will meet at least four times per year, and more often if required. Special meetings may be held to review the Department annual financial statements and performance statements or to meet other specific responsibilities of the Committee.

Attendance at meetings and quorum

The Chair will call a meeting if requested to do so by the Secretary, and may call a meeting if requested by another Committee member. A quorum for any Committee meeting will be three members. Should the Chair be absent from an ARC meeting, the ARC will be chaired by the Deputy Chair. At the Chair's discretion internal staff or external parties may attend meetings (in whole or in part) as invited guests.



Committee Secretariat

In accordance with this Charter, the Department will provide secretariat services to the Committee as determined by the Secretary.

The Committee Secretariat's responsibilities are the provision of administrative support for Committee meetings, taking and distributing minutes, and record keeping. The secretariat assists the Committee in maintaining communication channels with internal audit, and in supporting the Chair and the Committee to inform the Secretary and the Executive Committee of the audit committee's work.

Conflicts of Interest

Once each year, Committee Members will provide written declarations, through the Chair of the Committee, to the Secretary declaring any actual or perceived conflicts of interests they may have in relation to their responsibilities. For the avoidance of doubt, any such declaration by a Member must include a declaration of any material personal interest which a Member may have in relation to their responsibilities.

Members should consider past employment, consultancy arrangements and related party issues in making these declarations and the Secretary, in consultation with the Chair of the Committee, should be satisfied that there are sufficient processes in place to manage any actual or perceived conflict.

At the beginning of each Committee meeting, Members are required to declare any actual or perceived conflict of interests that may apply to specific matters on the meeting agenda. Where required by the Chair of the Committee, a Member with an actual or perceived conflict of interest will be excused from the meeting or from the Committee's consideration of the relevant agenda item(s). The Chair of the Committee is also responsible for deciding, in consultation with the Secretary where appropriate, if he/she should excuse themselves from the meeting or from the Committee's consideration of the relevant agenda item(s). Details of any actual or perceived conflicts of interests declared by the Chair of the Committee and other Members, and actions taken, will be appropriately recorded in the minutes.

Review of Performance

The Chair of the Committee, in consultation with the Secretary, will undertake a review of the performance of the Committee at least once every two years. The review will be conducted on a self-assessment basis with appropriate input sought from the Secretary, Committee Members, senior management, the ANAO and any other relevant stakeholders, as determined by the Secretary. The outcomes of this assessment will be reported to the Secretary.

The Chair of the Committee will provide advice to the Secretary on an external Member's performance where an extension of the Member's tenure is being considered.

Approved by

Jenny Morison
Chair
Audit and Risk Committee
Department of Health

Dr Brendan Murphy
Secretary
Department of Health

Signed date:

23 / 4 2021