



**Australian Government**  
**Department of Foreign Affairs and Trade**

# Audit and Risk Committee Charter

March 2021

Signed

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Frances Adamson  
Secretary

March 2021

## 1. Audit and Risk Committee Charter

1.1 The Secretary has established the Audit and Risk Committee in compliance with section 45 of the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and PGPA Rule section 17 Audit Committees for Commonwealth Entities.

## 2. Role

2.1 The Committee's role is to provide independent advice to the Secretary (and Departmental Executive) on the appropriateness of DFAT's financial and performance reporting, risk oversight and management, and system of internal control, as well as the associated compliance frameworks to enable the Department to meet its external accountability responsibilities.

2.2 The Committee has no executive management powers.

2.3 The Committee is directly responsible and accountable to the Secretary for the exercise of its responsibilities. The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the Secretary, except for those functions that are classified as mandatory under the PGPA Act.

2.4 The Committee will be assisted by DFAT's internal audit function that will be responsible for delivering an internal audit program in line with the Committee's guidance and subject to approval by the Secretary. The Committee will exercise a governance role in relation to DFAT's internal audit function.

## 3. Authority

3.1 The Secretary authorises the Committee, in accordance with its role and responsibilities, to:

- » obtain any information it requires from any official or external party (subject to any legal obligation to protect information)
- » discuss any matters with the Australian National Audit Office (ANAO), or other external parties (subject to confidentiality considerations)
- » request the attendance of any official, including the Secretary, at committee meetings
- » obtain legal or other professional advice, as considered necessary to fulfil its role, at DFAT's expense, subject to approval by the Secretary or delegate.

3.2 The Committee will engage with management in a constructive and professional manner in discharging its advisory responsibilities and formulating its advice to the Secretary.

## 4. Membership and Tenure

4.1 The Committee will comprise of a minimum of three and a maximum of five members, appointed by the Secretary. Members of the Committee cannot be officials of DFAT and a majority of the members must not be officials of any Commonwealth entity. Members are not permitted to nominate other people to represent them at meetings.

4.2 The Secretary will appoint a member as Chair. The Chair is authorised to appoint an Acting Chair to act as Chair in their absence.

4.3 The Secretary, or her proxy, will attend meetings as an observer.

4.4 The Chair will determine who will attend meetings as advisers or observers to present papers or answer the Committee's inquiries. Typically, this will include the Chief Finance Officer (CFO), Chief People Officer (CPO), Chief Information Officer (CIO), Chief Security Officer (CSO), and/or the Chief Performance and Risk Officer (CPRO).

4.5 The Chief Auditor (CA AUB) and representatives of the ANAO will be invited to attend meetings of the Committee as an observer.

4.6 Committee members, taken collectively, will have a broad range of skills and experience relevant to the operations of DFAT. At least one member of the Committee will have accounting or related financial management experience with an understanding of accounting and auditing standards. Other important skills and experience include an understanding of performance planning and reporting requirements under the PGPA Act and Rule, and the application of these to the DFAT operating environment, and an understanding of the systems of risk management and internal control.

4.7 Members of the Committee are expected to understand and observe the legal requirements of the PGPA Act and Rules. Members are also expected to:

- » act in the best interests of DFAT as a whole
- » apply good analytical skills, objectivity and good judgement
- » express opinions constructively and openly, raise issues that relate to the committee's responsibilities and pursue independent lines of enquiry
- » contribute the time required to meet their responsibilities.

4.8 The role of observers is to provide information or reports to the Committee. Observers are not members of the Committee but may be given the right to comment or participate with the agreement of the Chair.

4.9 Committee members must not use or disclose information obtained by the committee except in meeting the committee's responsibilities, or unless expressly agreed by the Secretary.

4.10 Committee members will be appointed for an initial period of no less than three years and not exceeding five years. Subject to the requirements of regular Committee renewal, members may be eligible for extension or re-appointment, after a formal review of their performance, for a further period as approved by the Secretary. The total term on the Committee will not exceed eight years.

4.11 The Chair must be appointed for a period of at least three years, with a maximum period of five years. The term of appointment for the Chair can be extended, as approved by the Secretary. Extensions must not cause the total term served, as Chair or Committee member, to exceed eight years.

## 5. Functions

### 5.1 Mandatory Functions

5.1.1 Section 17 of the PGPA Rule requires that the functions of an audit committee must include reviewing the appropriateness of DFAT's:

- » financial reporting

- » performance reporting
- » system of risk oversight and management
- » system of internal control.

## 5.2 Financial Reporting

- › Review the financial statements and provide advice to the Secretary (including recommending their signing by the Secretary). In particular, the committee may consider:
  - » DFAT's compliance with accounting standards, including an assessment of the appropriateness of accounting policies and disclosures
  - » areas of significant judgement and financial statement balances that require estimates
  - » any significant changes to accounting policies and practices
  - » significant or unusual transactions
  - » sign-off by DFAT 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 ANAO, including financial statement adjustments or revised disclosures
  - » whether, taking into account all of the above, the financial statements are appropriate to the entity.
- › Review the processes and systems in place designed to ensure that financial information included in DFAT's annual report is consistent with the signed financial statements.
- › Discuss with ANAO the auditor's judgement about the adequacy of DFAT's accounting policies and the quality of DFAT's processes for the preparation of financial statements.

## 5.3 Performance Reporting

- › Provide advice and assurance to the Secretary that DFAT's performance information in the portfolio budget statements, corporate plan and annual performance statements is in accordance with the PGPA Act and Rule.
- › Review the systems and procedures for assessing and reporting the Department's performance. In particular, the Committee should satisfy itself, and where appropriate provide advice to the Secretary, that:
  - » DFAT's Corporate Plan and PBS include appropriate details of how the Department's performance will be measured and assessed
  - » DFAT has a sound approach to measuring and monitoring its performance throughout the financial year and at year end
  - » the draft annual performance statements are appropriate, as judged against the specific performance measures included in the Corporate Plan and PBS, and meet the requirements of the Commonwealth Performance Framework, with reference to periodic observations made by the ANAO and the JCPAA

- » the proposed reporting of DFAT's performance is not inconsistent with DFAT's financial information, including the annual financial statements, that are proposed to be included in the annual report
- » appropriate records of performance are maintained by DFAT.
- › Provide a statement to the Secretary that the annual performance statements, and performance reporting more broadly, are appropriate to the entity, with reference to any specific areas of concern or suggestions for improvement.

## 5.4 Systems of Risk Oversight and Management

- › Provide advice to the Secretary annually on the appropriateness of DFAT's systems for risk oversight and risk management as a whole by undertaking the following activities:
  - » review whether management has in place an appropriate risk management framework and associated procedures for effective identification and management of DFAT's business and financial risks, in accordance with the Commonwealth Risk Management Policy
  - » satisfy itself that a sound approach has been followed in managing DFAT's major risks including those associated with individual projects, program implementation and activities
  - » review the process of developing and implementing DFAT's fraud control arrangements and satisfy itself that DFAT 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 instances or allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in DFAT.

## 5.5 System of Internal Control

### Internal Control Framework

- › Provide advice to the Secretary annually on the appropriateness of DFAT's system of internal control by undertaking the following activities:
  - » review whether management's approach to maintaining an effective internal control framework, including in relation to functions performed by external parties such as contractors and advisors, is sound and effective
  - » review whether management has in place relevant policies and procedures, including Secretary Instructions, and that these are periodically reviewed and updated
  - » satisfy itself that appropriate processes are in place to periodically (but not less than annually) assess whether key policies and procedures are complied with
  - » satisfy itself that management periodically assesses the adequacy of DFAT's information security infrastructure.
- › Recommendations and issues noted in relation to individual activities above should also be advised.

### Business Continuity Management

- › Satisfy itself that a sound approach has been followed in establishing DFAT's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested.

### **Ethical and Lawful Behaviour**

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

### **Legislative and Policy Compliance**

- › Review the effectiveness of the system for monitoring DFAT's compliance with those laws, regulations and associated government policies with which DFAT must comply.
- › Review, where relevant, DFAT's compliance with International Conventions, particularly the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.
- › Determine whether management has appropriately considered legal and compliance risks as part of the entity's enterprise risk management plan.

### **Governance Arrangements**

- › Periodically review DFAT's governance arrangements or elements of the arrangements and suggest improvements, where appropriate, to the Secretary.

### **Parliamentary Committee Reports and External Reviews:**

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

## **6. Internal Audit**

- › Review the proposed internal audit coverage in Internal Audit's Annual Work Program (AWP) to confirm that it takes into account DFAT's key risks and exposures and recommend approval by the Secretary.
- › Review all audit reports and report to the Secretary on significant issues identified in audit reports.
- › Advise the Secretary on the adequacy of internal audit resources, or budget, to carry out its responsibilities, including completion of the approved AWP.
- › Review the coordination of the audit programs conducted by internal audit and external audit and other assurance functions.
- › Monitor management's implementation of internal audit recommendations.
- › Periodically review the internal audit charter to ensure appropriate authority, access and reporting arrangements are in place.
- › Periodically review the performance of internal audit and report the results to the Secretary.
- › Meet privately with the Chief Auditor to discuss any matters which the Committee believe should be discussed in a closed session.

## **7. Engagement with the ANAO**

7.1 In undertaking its role, the Committee will engage with the ANAO, as the entity's external auditor, in relation to the ANAO's financial statement and performance audit coverage. In particular, the Committee will:

- » act as a conduit for communication between the Secretary, senior management and internal and external audit
- » monitor all ANAO financial statement management letters and performance audit reports, including the implementation of performance audit recommendations
- » provide advice to the Secretary on action to be taken on significant issues raised in relevant ANAO reports or better practice guides
- » meet privately with the ANAO to discuss any matters which the Committee believe should be discussed in a closed session.

## 8. Sub-Committees

8.1 The Committee may establish one or more sub-committees to assist the full Committee in meeting its responsibilities, in consultation with the Secretary.

8.2 The terms of reference for each sub-committee shall be documented and approved by the full Committee.

8.3 The Committee stipulates that:

- » a member of the full Committee is appointed as Chair of a sub-committee
- » minutes of all meetings of sub-committees are taken and a report provided at the next full Committee meeting
- » important issues that may require consideration by the full Committee are brought to the attention of the Chair immediately following a sub-committee meeting so that the Chair is in a position to decide what action to take.
- » any member of the Committee may attend a sub-committee meeting as an observer, as part of their Committee duties.

## 9. Reporting

9.1 The Committee will, as often as necessary, and at least once a year, report to the Secretary on its operation and activities during the year and confirm to the Secretary that all functions outlined in this Charter have been satisfactorily addressed.

9.2 The Committee may, at any time, report to the Secretary any other matter it deems of sufficient importance to do so.

9.3 Meet privately with the Secretary to discuss any matters which the Committee believe should be discussed in a closed session.

## 10. Administrative Arrangements

### 10.1 Meetings

10.1.1 The Committee will meet at least five times per year, one of which should be a special meeting to review DFAT's annual financial statements.

10.1.2 The Chair is required to call a meeting if asked to do so by the Secretary and decide if a meeting is required if requested by another member, internal audit or the ANAO.

## 10.2 Planning

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

## 10.3 Quorum

10.3.1 A quorum will consist of a majority of Committee members. The quorum must be in place at all times during the meeting.

10.3.2 Meetings can be held in person, by telephone or by video conference. A member's attendance can be in person, by telephone or by video conference.

## 10.4 Secretariat

10.4.1 The Chief Auditor will ensure the provision of secretariat services to the Committee. The Secretariat will:

- » ensure the agenda for each meeting is approved by the Chair
- » the agenda and supporting papers are circulated at least one week before the meeting
- » ensure the minutes of the meetings are prepared and maintained.

10.4.2 Minutes must be reviewed by the Chair and circulated in a timely manner to each member and Committee advisers, as appropriate.

## 10.5 Conflicts of Interest

10.5.1 Committee members will provide written declarations annually, through the Chair, to the Secretary declaring any material personal interests they may have in relation to their responsibilities. Members should consider any past employment, consultancy arrangements and related party issues in making these declarations, in consultation with the Chair, and should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.

10.5.2 At the beginning of each committee meeting, members are required to declare any material personal interests that may apply to specific matters on the meeting agenda. Where required by the Chair, the member will be excused from the meeting or from the Committee's consideration of the relevant agenda item(s). The Chair is also responsible for deciding, in consultation with the other members of the Committee present, if he/she should excuse themselves from the meeting or from the Committee's consideration of the relevant agenda item(s). Details of any material personal interests declared by the Chair and other members, and actions taken, will be appropriately recorded in the minutes.

## 10.6 Induction

10.6.1 New members will receive relevant information and briefings on their appointment from the Chief Auditor, and the Chair where appropriate, to assist them to meet their committee responsibilities.

## 10.7 Assessment Arrangements

10.7.1 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 (unless otherwise determined by the Secretary) with appropriate input sought from the Secretary, Committee members, senior management, internal audit, the ANAO and any other relevant stakeholders.

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

## 10.8 Review of Charter

10.8.1 The Committee will review this Charter at least once every two years.

10.8.2 Any substantive changes to the Charter will be recommended by the Committee and formally approved by the Secretary.