###### **Audit and Risk Committee**

###### **Terms of Reference**

###### **Purpose**

###### The Audit and Risk Committee (ARC) is appointed by the Secretary in accordance with the Standing Directions of the Minister for Finance under the *Financial Management Act 1994* (FMA).

###### ARC assists the Secretary of the Department of Education (the department) in fulfilling their oversight and governance responsibilities and obligations under the FMA. In accordance with the FMA and the associated Standing Directions of the Minister for Finance, ARC will monitor:

###### financial reporting and the financial statements

###### risk management

###### the internal audit function

###### the report of operations on financial management, performance and sustainability

###### compliance with the FMA, laws, regulation, internal policies and industry standards (including compliance breach reporting)

###### the external audit function (including the Auditor-General and duly appointed representatives)

###### remedial action of audit issues.

###### **Membership**

###### ARC will comprise 6 members, all appointed by the Secretary.

###### Membership must include departmental executive officers as well as external, independent representatives. The majority of members must be independent.

###### The Secretary will appoint one of the external, independent representatives as the ARC Chair. The ARC Chair cannot be the Chair of the department Executive Board.

###### The Secretary, Chief Finance Officer and internal auditors must not be members of ARC.

###### An Executive Officer acting in an internal member’s substantive position may not be a member of ARC or act as a proxy for the substantive member. Executive Officers may be invited to attend ARC meetings as determined by the Chair.

###### ARC members will collectively have a broad range of skills and experience as required by the Standing Directions of the Minister for Finance and the relevant legislation. At least one member of ARC should have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.

###### The Secretary will review new member appointments. The decision to re-appoint existing members will consider:

###### performance and independence discussions undertaken by the ARC Chair[[1]](#footnote-2) with the Executive Director, Integrity, Assurance and Executive Services Division and Chief Audit Executive (CAE). Recommendations will be made to the Secretary, in a briefing for a re-appointment decision

###### the results of the ARC self-assessment (including the skills matrix) process to ensure that ARC members possess the required skills and experience needed for membership

###### meetings between ARC Chair and individual committee members to provide and receive feedback, as required.

###### ARC members must be recorded in the department’s Annual Report, with the external members identified as such.

###### New members will be provided with a membership induction.

###### ARC members are required to demonstrate the behaviours in the department leadership charter and behavioural expectations outlined in **Attachment 1**.

###### **Role and Responsibility**

###### ARC will:

###### independently review and assess the effectiveness of the department’s systems and controls for financial management, performance and sustainability, including risk management

###### oversee the department’s internal audit function

###### review annual financial statements and make a recommendation to the Secretary as to whether to authorise the statements before they are released to Parliament by the Minister

###### review information in the report of operations on financial management, performance and sustainability before it is released to Parliament by the Minister

###### review and monitor compliance with the FMA, the Standing Directions and the Instructions, and advise the Secretary on the level of compliance attained

###### review and monitor remedial actions taken to address compliance deficiencies

###### maintain effective communication with external auditors (including the Auditor‑General and the Auditor-General’s duly appointed agents and representatives)

###### consider recommendations made by internal and external auditors relating to, or impacting on, financial management, performance and sustainability and the actions to be taken by the department to resolve issues

###### ensure that internal audit conducts periodic testing of audit actions to ensure that underlying issues have been effectively resolved

###### regularly review implementation of actions in response to internal or external audits, including remedial actions to mitigate future instances of non‑compliance

###### complete self-assessment of its performance on an annual basis

###### review the ARC skills matrix to identify and address any gaps in the mix of skills and experience needed for membership once every 3 years and when there are changes in ARC composition (e.g a new Committee member), and to make recommendations and assist the Secretary with succession planning

###### ensure that, where relevant, and for matters relating to ARC decisions, that Aboriginal and Torres Strait Islander stakeholders have been respectfully engaged in making those decisions affecting education.

**Financial Reporting, Financial Statements and Year-End Requirements**

ARC will:

###### obtain assurance from the Chief Finance Officer on the integrity of information relevant to financial management, performance and sustainability in the Annual Report

###### obtain assurance from the Chief Finance Officer on the budgets and financial projections and financial and performance reports

###### obtain assurance from the Chief Finance Officer that the department’s systems and controls for financial management, performance and sustainability are operating efficiently and effectively in all material respects

###### obtain assurance from the Chief Finance Officer that financial reports (estimates and actuals) present fairly, and in accordance with applicable Australian Accounting Standards and the FMA, the department’s financial position and operating results

###### obtain assurance from the Chief Finance Officer that financial reports (estimates and actuals) are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the department

###### review and monitor the department’s compliance with the FMA, the Directions and Instructions, and the Victorian Protective Data Security Framework

###### advise the Secretary on the level of compliance attained through management’s annual assessment and internal audit activities

###### review and approve the department’s Annual Financial Management Compliance Report, and recommend to the Secretary to sign the attestation to the Office of the Victorian Information Commissioner

###### review and monitor remedial actions taken to address compliance deficiencies (in reference to 3.19)

###### review the department’s Annual Financial Statements and recommend to the Secretary to authorise the Annual Financial Statements before they are released to Parliament.

### **Risk Management**

### ARC will:

###### review the risk profile for strategic, operational, inter-agency and state significant risks along with the mechanisms in place to manage those risks

###### monitor management actions in ensuring that inter-agency risks are addressed and the department contributes to the management of shared risks across government, as appropriate, and ensure that the department contributes to the identification and management of state significant risks

###### ensure that management has appropriate processes for identifying, assessing and responding to risks in a manner that is in accordance with the department’s risk management framework and that those processes are operating effectively

###### monitor the risk assessments carried out within the department and the strategies and plans in place to mitigate risks

###### enquire into changes to the department’s risk profile and assess the risk management strategies adopted

###### review compliance with risk and insurance requirements identified in the Victorian Government Risk Management Framework.

**Internal Audit Function**

### ARC will:

###### annually review and approve the internal audit terms of reference

###### annually review and approve the strategic internal audit plan based on the governance, risks and controls of the department, with a rolling period of four years. The plan will be provided to the Secretary for information purposes

###### annually review and approve the audit work program based on the governance, risks and controls of the department that sets out the key areas of internal audit work for the year

###### review the effectiveness and efficiency of the internal audit function

###### endorse the appointment of the Chief Audit Executive

###### endorse the appointment of the outsourced internal audit providers

###### review the annual performance report provided by internal audit and report the results to the Secretary on an annual basis

###### meet privately with the internal auditors without management present to ensure frank and open communication at least once per year or as required, at the discretion of the Chair

###### review the scope for each internal audit project and provide feedback as appropriate

###### review and challenge internal audit reports to ensure their validity and assess their implications on the department’s risk and control framework

###### review and assess conflict of interest declarations (actual or perceived) from outsourced internal audit providers who perform other consultancy work for the department.

**Reporting**

###### Prepare any reports required by law or requested by the Secretary, such as a report on ARC’s activities and duties in the section on corporate governance in the Annual Report.

###### Report to the Secretary, ARC’s views and concerns on significant risk issues and changes to the risk profile.

###### Provide the Secretary with a copy of the minutes of each meeting as soon as practicable after the meeting.

###### Report annually to the Secretary, the results of the ARC’s self-assessed performance evaluation.

###### **Compliance with FMA, laws, regulations, internal policies and industry standards**

### ARC will:

###### obtain periodic updates from management about the adequacy and effectiveness of the system for monitoring compliance with laws, legislation and internal policies and the results of management’s investigation and follow-up (including any disciplinary action) of fraudulent acts or non-compliance

###### obtain regular updates from management and internal and external audit about compliance matters that may have a material impact on the department’s financial statements, strategy, operations or reputation

###### be satisfied that key regulatory compliance matters related to the business of the department have been considered in the preparation of the financial statements

###### be satisfied that there are effective policies and processes for identifying, analysing and addressing complaints (including protected disclosure matters)

###### be satisfied that there is a systematic process for the reporting and investigation of compliance breaches or potential breaches of laws and regulations.

###### *The year-end processes and requirements are stipulated in 3.14 to 3.23.*

###### **External Audit (including the Auditor-General and duly appointed representatives)**

### ARC will:

###### ensure that the activities of external audit are co-ordinated with internal audit to ensure adequate audit coverage and minimise duplication of effort

###### ensure the views of external audit, including those on accounting issues that may impact on the financial statements, financial management compliance or other relevant risks are considered by ARC

###### ensure internal and external audit outcomes, including financial and performance audits, are considered by ARC

###### provide a standing invitation to the external auditor to attend ARC meetings

###### meet privately with external auditors without management present to ensure frank and open communication at least once per year, at the discretion of the Chair.

###### **Remedial Action of Audit Issues**

### ARC will:

###### monitor implementation of internal and external audit recommendations accepted by management and review impact of actions taken by management intended to resolve issues

###### review status of remedial actions on a quarterly basis.

###### **Decision-making Authority**

The Secretary authorises ARC to conduct or authorise investigations into any matters within the scope of its responsibilities. This includes engaging independent counsel and other advisors, as it deems necessary to assist in the conduct of any investigation. ARC is empowered to:

* 1. conduct or authorise investigations into any matters within the ARC’s scope of responsibilities
  2. have direct access to the Secretary, Chief Finance Officer and management
  3. have unrestricted access to management, employees and relevant information
  4. ask management or others to attend meetings and provide information as required
  5. have direct access to internal and external auditors without management present.

###### **Meetings and Administration**

### **ARC Meetings**

###### ARC will meet at least 5 times per year. If required, the ARC Chair can request special meetings.

###### The ARC meeting in August will focus on consideration of the department’s annual financial statements.

###### The Chief Finance Officer, Chief Audit Executive, Executive Director, Integrity, Assurance and Executive Services Division and Deputy Secretary, Financial Policy and Information Services shall have a standing invitation to attend ARC meetings.

###### A quorum for any meeting is 3 members, providing the majority of members in attendance are independent members.

###### Should the ARC Chair be unable to attend a meeting, ARC may appoint one of the independent committee members to Chair the meeting or may choose to defer the meeting.

###### The independent members shall be able to meet in the absence of the internal members, including in relation to meetings with the Chief Audit Executive or the external auditor.

###### ARC members will be distributed with the agenda and relevant supporting documentation at least 5 business days prior to each ARC meeting. No papers are to be submitted in a shorter timeframe unless by prior agreement with the ARC Chair.

###### The ARC Secretariat will take minutes of meetings and distribute to ARC members in draft within 10 business days of the ARC meeting. The draft minutes will be reviewed by the ARC Chair before they are circulated to the members. ARC members shall provide feedback within 5 business days of receiving the draft minutes.

###### At the discretion of the ARC Chair, urgent matters may be addressed out-of-session. It may also be appropriate at times to deal with issues out-of-session to keep meetings focused. ARC members will approve audit scopes and any exceptions or changes to the high level audit objectives in the IA plan out-of-session.

###### The ARC Secretariat will receive out-of-session papers and release the papers to ARC members. ARC members have 5 working days to provide feedback before the ARC Chair concludes the resolution. Minutes of the resolutions will be provided at the next meeting.

###### The Chair will liaise with the Secretariat function, which will be responsible for:

###### setting the meeting agenda

###### providing quality control and oversight of papers by undertaking a disciplined approach to the preparation and timely submission of papers

###### confirming that appropriate consultation has been undertaken across the prior to circulation of any papers

###### compiling and circulating Committee papers

###### taking and disseminating minutes, including capturing decisions, action items, action owners and timelines for action

###### supporting the Committee to agree how decisions will be communicated and providing communication material in the agreed format for dissemination through the agreed channel/s

###### following up action items.

###### **Work Plan**

###### The ARC Secretariat will develop an annual work plan based on areas of responsibility and consideration of major issues. The basis of the work plan will mirror the key responsibilities outlined in this ARC Terms of Reference.

###### **Conflicts of interest and Confidentiality**

###### ARC members must declare any conflicts of interest (actual or perceived) annually and at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately documented and resolved to the satisfaction of the ARC Chair (or the Secretary in the case of the ARC Chair).

###### Where members are deemed to have a real or perceived conflict of interest, it may be appropriate that they are excused from ARC deliberations on the issue where a conflict of interest exists. This decision resides with the Chair (or the Secretary in the case of the ARC Chair).

###### All ARC members are expected to understand and adhere to the department’s conflict of interest policy and framework.

###### Members of the Committee will adhere to the department’s code of conduct in relation to confidentiality of matters discussed by the Committee. Confidentiality protocols may apply for selected agenda items. Papers marked ‘confidential’ are not to be circulated beyond the Committee membership.

###### **Review of Terms of Reference**

###### ARC will review at least annually the Terms of Reference and any substantial changes will be formally approved by the Secretary.

###### Any amendments to these Terms of Reference can only be made with the approval of the Secretary.

###### **Escalation Process**

###### The ARC Chair will make recommendations to the Secretary to resolve any disagreements between management and auditors (internal or external).

###### The Chair will raise with the Secretary any instances where risk or control activities are not appropriately managed. This is not limited to, but may include, instances of internal or external audit recommendations that have not been addressed appropriately or in a timely manner.

###### The ARC Chair may escalate such instances beyond the Secretary if deemed appropriate.

**Attachment 1**

**Expected behaviours**

Board, Standing Committee, Sub-committee and Project Control Board members are required to act in accordance with the department’s values and those behaviours expected of senior public officials in line with the VPS Code of Conduct. All staff are expected to take the time to understand the department’s governance arrangements.

**Expectations of Board and committee members**

All members of governance bodies must:

* adhere to the behaviours outlined in the department’s leadership charter
* act impartially and in the best interest of the department and not in the interests of an individual person, group, division or branch
* act in accordance with the department’s legal, compliance and regulatory responsibilities
* demonstrate respect by listening and encouraging committee members to explain ideas and actions, and by collaborating and engaging constructively to work towards a common goal
* lead and support the department’s integrity culture by providing transparency and accountability to committee deliberations and decision-making
* appropriately prepare for meetings, including consulting as appropriate in advance of the meeting to inform decision-making
* draw on relevant technical expertise from the member’s business area including collaborating with other business areas as appropriate to provide advice and input that considers a whole of system perspective
* demonstrate collective accountability and responsibility for advice
* attend all meetings, with delegations not ordinarily permitted except where formal acting arrangements are in place or other arrangements are agreed by the Chair.

**Expectations of the Chair**

In addition to the expectations outlined above, the role of the Chair is to lead the governance body to achieve its objectives and execute responsibilities in line with its terms of reference. This includes:

* holding members to account where members do not adhere to the expected behaviours above
* champion continuous improvement of the governance body, and member performance
* ensuring the governance body acts in accordance with all relevant department policies, and the VPS Code of Conduct, including with respect to full disclosures of any potential conflicts of interest
* oversight of the governance body’s compliance obligations
* managing the governance body’s forward agenda, and maintaining its focus on matters relevant to its function
* conducting meetings which are scheduled and administered in a way which:
  + supports the governance body to arrive at clear outcomes
  + monitors actions and communicates advice
  + enables active participation by all members
  + engages with differing viewpoints in a constructive and clear way.

1. For the performance review of the ARC Chair, discussions should be held by the Chief Audit Executive with the Executive Director, Integrity, Assurance and Executive Services Division and at least one ARC member. [↑](#footnote-ref-2)