



CHARTER

AUDIT & RISK COMMITTEE (ARC)

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Introduction

The Australian Prudential Regulation Authority (APRA) is a Commonwealth statutory authority established under the *Australian Prudential Regulation Authority Act 1998* (APRA Act) and operates under the provisions of both the APRA Act and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The Executive Board (EB) of APRA has ultimate accountability for the efficient and effective operation of the organisation. To aid its day-to-day management of APRA, the EB has established a number of Committees.

The EB has established an Audit and Risk Committee (ARC) in compliance with section 45 of the PGPA Act and PGPA Rule section 17 *Audit Committees for Commonwealth Entities*, which reports to the Executive Board.

This Charter sets out the ARC's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

1. Objectives of the ARC

- 1.1. The ARC's role is to provide independent assurance to the APRA Chair and EB on APRA's financial and performance reporting responsibilities, risk oversight and management, and system of internal control. The ARC is not responsible for the executive management of these functions. The committee will engage with management in a constructive and professional manner in discharging its advisory responsibilities and formulating its advice to the APRA Chair and EB.
- 1.2. Members of the committee are expected to understand and observe the legal requirements of the PGPA Act and rules. Members are also expected to:
 - a) act in the best interests of APRA as a whole;
 - b) apply good analytical skills, objectivity and good judgment;
 - c) express opinions constructively and openly, raise issues that relate to the committee's responsibilities and pursue independent lines of enquiry; and
 - d) contribute the time required to meet their responsibilities.
- 1.3. 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 APRA Chair.
- 1.4. The committee will be assisted by APRA's Internal Audit (IA), Risk and Compliance and Secretariat functions. IA will be responsible for delivering an internal audit program in line with the ARC's guidance and subject to approval by the EB. The ARC will exercise a governance role in relation to APRA's Internal Audit function.
- 1.5. New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.



2. Responsibilities of the ARC

Decision Making

2.1. The ARC acts in an advisory capacity and has no decision-making authority.

Financial Reporting

2.2. The ARC will review and provide advice to the APRA Chair on APRA's:

- a) annual financial statements;
- b) information (other than annual financial statements) requested by the Department of Finance in preparing the Australian Government's consolidated financial statements, including the supplementary reporting package;
- c) processes and systems for preparing financial reporting information;
- d) financial record keeping; and
- e) processes in place to allow APRA to stay informed throughout the year of any changes or additional requirements in relation to financial reporting.

2.3. The ARC will provide a statement to the APRA Chair:

- a) on whether, in its view, APRA's annual financial statements, and any additional information required by the Department of Finance for the purpose of preparing the Australian Government consolidated financial statements (including the supplementary reporting package), comply with the PGPA Act, the PGPA Rules, the Accounting Standards and supporting guidance; and
- b) in respect of APRA's financial reporting as a whole, with reference to any specific areas of concern or suggestions for improvement.

Performance Reporting

2.4. The ARC will review and provide advice to the APRA Chair on APRA's systems and procedures for assessing, monitoring and reporting achievement of APRA's performance. In particular the ARC will assess whether:

- a) APRA's Portfolio Budget Statements (PBS) and Corporate Plan contain appropriate details of how APRA's performance is being measured and assessed;
- b) APRA's approach to measuring its performance throughout the financial year against the performance measures included in its PBS and Corporate Plan is appropriate and in accordance with the Commonwealth performance framework; and
- c) APRA has appropriate systems and processes for preparation of its Annual Performance Statement (APS) and inclusion of the statement in its annual report.

2.5. The ARC will review APRA's APS and provide advice to the APRA Chair on its appropriateness.



- 2.6. The ARC will provide a statement to the APRA Chair on whether, in its view, the APS and performance reporting as a whole is appropriate.

Systems of Risk Oversight and Management

- 2.7. The ARC will review and provide advice to the APRA Chair on APRA's:
- a) Enterprise Risk Management (ERM) policy framework, and the necessary internal controls for the effective identification and management of APRA's risks, in keeping with the Commonwealth Risk Management Policy;
 - b) approach to managing key risks, including those associated with individual projects and program implementation and activities;
 - c) process of developing and implementing a fraud control framework, and satisfy itself that APRA has adequate processes for detecting, capturing and effectively responding to fraud risks; and
 - d) articulation of key roles and responsibilities relating to risk management and adherence to them by APRA officials.
- 2.8. The ARC will provide a statement to the APRA Chair on whether in their view, the APRA's system of risk oversight and management as a whole is appropriate with reference to the Commonwealth Risk Management Policy.

System of Internal Control

- 2.9. The ARC will review and provide advice to the APRA Chair on APRA's:
- a) internal control framework, in particular whether:
 - i. management's approach to maintaining an effective internal control framework and whether appropriate processes are in place for assessing whether key policies and procedures are complied with; and
 - ii. management has in place relevant policies and procedures, (such as delegations, a business continuity management plan, and bullying and harassment policies).
 - b) legislative and policy compliance, and in particular:
 - i. review the effectiveness of systems for monitoring APRA's compliance with laws, regulations and associated government policies with which APRA must comply; and
 - ii. determine whether management has adequately considered legal and compliance risks as part of the entity's ERM framework, fraud control framework and planning.
 - c) internal audit charter, to ensure appropriate organisational structures, authority, access and reporting arrangements are in place;
 - d) internal audit coverage, and in particular:
 - i. review the proposed internal audit plan, ensuring the coverage takes into account APRA's key risks, and recommending approval of the Internal Audit Plan by the EB; and



- ii. review the outcome of all audit reports and provide advice to the APRA Chair on significant issues identified.
 - e) security compliance, and in particular review APRA's approach to maintaining an effective internal security system – including complying with the Protective Security Policy Framework - and security policy framework (including information security).
- 2.10. The ARC will provide advice to the APRA Chair on whether APRA's system of internal control is appropriate.

Other Functions

2.11. The ARC may fulfil other functions, including the following, or as requested by the APRA Chair:

- a) business continuity management, and in particular satisfy itself that a sound approach has been followed in establishing APRA's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested.
- b) ethical and lawful behaviour, and in particular assess whether the APRA Chair and EB have taken steps to embed a culture that promotes the proper use and management of public resources and is committed to ethical and lawful conduct.
- c) External Reviews, and in particular satisfy itself that APRA has appropriate mechanisms in place to review relevant parliamentary committee reports and external reviews of APRA, and implement, where appropriate, any resultant recommendations.

3. Authority of the ARC

3.1. The APRA Chair authorises the ARC, in accordance with its role and responsibilities, to:

- a) obtain any information it requires from any official or external party (subject to any legal obligation to protect information);
- b) discuss any matter with the Chief Internal Auditor, Chief Risk Officer, Chief Operating Officer, or their delegates;
- c) discuss any matters with the Australian National Audit Office (ANAO), or other external parties (subject to confidentiality considerations);
- d) request the attendance of any APRA official, including the APRA Chair, at ARC meetings; and
- e) obtain legal or other professional advice, as considered necessary to fulfil its role, at APRA's expense, subject to approval by the APRA Chair and compliance with PGPA and other legislative requirements.



4. Composition, Chair and Tenure of the ARC

- 4.1. The ARC comprises at least three and not more than five members, appointed by the APRA Chair.
- 4.2. The majority of members shall be independent members.
- 4.3. The APRA Chair will appoint at least one APRA Member to the ARC, so long as the majority of members remains independent.
- 4.4. The APRA Chair will appoint the Chair of the committee.
- 4.5. The ARC is authorised to appoint a Deputy Chair who must be an independent member, and will act as chair in the absence of the Chair.
- 4.6. The APRA Chair, Chief Operating Officer, Head of Finance, Chief Internal Auditor and Chief Risk Officer, or other management representatives, as determined by the Chair, may attend meetings as advisors or observers, but will not be members of the committee.
- 4.7. A representative of the ANAO will be invited to attend meetings of the committee, as an observer.
- 4.8. The ARC members should collectively have a broad range of skills and experience relevant to the operations of APRA and the environment in which it operates.
- 4.9. The ARC members should be conversant with risk management principles and standards.
- 4.10. At least one member of the ARC will have accounting or related financial management experience, with an understanding of accounting and auditing standards in a public-sector environment.
- 4.11. ARC members are appointed for an initial period not exceeding three years, after which they will be eligible for an extension or reappointment for up to two more terms, not exceeding three years each. Any extension will be subject to prior approval by the APRA Chair.

5. Duties of the ARC Chair and Members

- 5.1. The ARC Chair is responsible for:
 - a) the conduct of all ARC meetings, including, (in consultation with management), setting agendas and ensuring that agenda items and the forward plan align with the ARC's responsibilities as outlined in this Charter; and
 - b) ensuring ARC meetings provide an environment in which constructive debate, discussion and challenge are encouraged and supported.
- 5.2. The ARC members, (and observers where appropriate), are expected to add additional insights and perspectives to aid the ARC's deliberations.



6. Frequency & Conduct of Meetings

- 6.1. The ARC will meet at least four times per year, including the review of APRA's annual financial and performance statements. Special meetings may be held to meet any specific requirements of the ARC.
- 6.2. The Chair is required to call a meeting if requested by the APRA Chair, and decide if a meeting is required if requested by another ARC member, Chief Internal Auditor, Chief Operating Officer, Chief Risk Officer or the ANAO.
- 6.3. A quorum will consist of a majority of ARC members, including via teleconference or video conference, and requires that there is at least one external independent member present. The quorum must be in place at all times during the meeting.
- 6.4. If a quorum cannot be achieved, the meeting may proceed as scheduled, however any decisions / endorsements proposed during the meeting must be ratified by the absent member(s) in a number and ratio that replicates the quorum as soon as possible after the meeting.
- 6.5. The ARC members and attendees have a standing obligation to disclose any interest that could conflict with the proper performance of the functions of their office;
- 6.6. At the beginning of each meeting, the ARC members, and attendees, are required to declare any conflicts of interest which may apply to specific matters on the meeting agenda. Where required by the ARC Chair, the member or attendee will be excused from the meeting or from the ARC's consideration of the relevant agenda items.
- 6.7. On an annual basis, members of the ARC will provide written declarations to the APRA Chair on any material personal interests they may have in relation to their responsibilities. External independent members should consider past employment, consultancy arrangements and related party issues in making these declarations. The ARC Chair, in consultation with the APRA Chair, should be satisfied that there are sufficient processes in place to manage any real or perceived conflicts.

7. Review and Reporting

Reporting

- 7.1. The ARC may, at any time, report any matter to the APRA Chair it deems of sufficient importance. In addition, an individual member may request a meeting with the APRA Chair.
- 7.2. The ARC Chair will arrange to brief the APRA Chair as needed after each meeting, detailing matters considered, key outcomes and advice to the APRA Chair / EB, with reference to any specific areas of concern or suggestions for improvement.
- 7.3. At least annually the ARC will provide confirmation to the APRA Chair on whether all functions outlined in this Charter have been satisfactorily addressed.

Assessment of Performance

- 7.4. The ARC will undertake an assessment of its own performance at least every two years and report the findings to the APRA Chair and EB. The review will be conducted on a self-assessment basis (unless otherwise determined by the APRA Chair) with appropriate input sought from the APRA Chair, committee members,

senior management, internal audit, the ANAO, and any other relevant stakeholders as determined by the APRA Chair.

Review of Charter

7.5. The ARC will review and update this Charter at least every two years, and recommend changes to the APRA Chair and EB for approval.

8. ANAO Engagement

8.1 The ARC will engage with the ANAO as APRA's external auditor. In particular the ARC will:

- a) meet privately with the ANAO at least twice per year;
- b) provide input on planned ANAO financial statement and performance audit coverage;
- c) monitor management's responses to all ANAO financial statement management letters and performance audit reports, including the implementation of audit recommendations; and
- d) provide advice to the APRA Chair on action taken on significant issues raised in relevant ANAO reports.

9. Administrative Arrangements

Committee Papers

9.1 Papers presented to the ARC will be expected to represent relevant views from engagement across APRA and provide a concise articulation of the risk assessment and recommendations supporting the purpose of the paper.

Minutes and Agenda

9.2 Meetings will have formal agendas and forward planners which have been agreed with the ARC Chair. The agenda must be distributed, along with the associated papers, at least five business days prior to each meeting, or later with approval from the ARC Chair.

9.3 Draft minutes of the ARC meetings will be circulated for review by the ARC Chair within one week of each meeting and confirmed at the subsequent meeting.

9.4 The forward planner will provide the mechanism for ensuring the ARC addresses the necessary areas to meet its core objectives and responsibilities.

9.5 Meeting papers and minutes may be circulated to the APRA Members for information.

9.6 Meeting minutes will be tabled at the next EB following the meeting.

Support

- 9.7 Secretariat support is provided to the ARC. The secretariat will ensure the agenda for each meeting is approved by the Chair, the agenda and supporting papers are circulated as required, and ensure the minutes of the meeting are prepared and maintained.



Document Ownership & Control

The Chief Internal Auditor, Chief Risk Officer and APRA Secretariat are responsible for the maintenance of the ARC's Charter.

The Charter has been reviewed and approved as follows:

Version	Approval Name (Person/Role, Board/Committee)	Comments	EB Reference of approval document	Date
1.0	Audit & Risk Committee			2019
1.1	APRA Chair, Wayne Byres	Approved at Executive Board meeting	Agenda Item	2019