

**OFFICIAL**

# ASD AUDIT AND RISK COMMITTEE (ASDARC)

21 May 2020



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## 1. Overview

### 1.1 Introduction

The Director-General (DG) as the accountable authority of the Australian Signals Directorate (ASD)<sup>1</sup> has established the ASD Audit and Risk Committee (ASDARC or the 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 (PGPA Rule).

This charter sets out the Committee's authority, composition and tenure, role and responsibilities, reporting and administrative arrangements.

### 1.2 Roles and responsibilities

#### ASDARC

The role of the ASDARC is to provide independent advice to the Director-General in accordance with the Director-General's duties as the accountable authority under the requirements of section 17 of the PGPA Rule.

The Committee's responsibilities, subject to revision by the DG, are to monitor, review and where appropriate, make recommendations to the DG with respect to:

- financial reporting
- performance reporting
- system of risk oversight and management
- system of internal control
- internal and external audit.

#### Members

Members of the ASDARC 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 ASD as a whole
- b) Apply good analytical skills, objectivity and sound judgment
- c) Express opinions constructively and openly
- d) Raise issues that relate to the ASDARC's responsibilities and pursue independent lines of enquiry
- e) Contribute the time required to meet their responsibilities.

ASDARC members must not use or disclose information obtained during the performance of ASDARC functions unless expressly agreed by the Director-General.

External members are required to sign a Deed of Non-Disclosure upon their appointment.

#### ASD's Office of Audit and Risk (OAR)

The ASDARC will be assisted by the Office of Audit and Risk (OAR), which will be responsible for delivering an internal audit program in line with ASDARC guidance and subject to approval by the Director-General. The ASDARC will exercise a governance role in relation to ASD's internal audit function.

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<sup>1</sup> ASD is a non-corporate Commonwealth entity established on 1 July 2018.

## ASD Staff<sup>2</sup>

The ASDARC engages with management in a constructive and professional manner in fulfilling its advisory responsibilities and forming its advice to the Director-General. The Director-General expects full cooperation from all ASD staff members in support of the ASDARC. This includes granting the ASDARC access to classified material, including codeword and compartmentalised information.

### 1.3 Authority

The Director-General authorises the ASDARC, in accordance with its role and responsibilities, to:

- a) Obtain any information it requires from any ASD staff members or external party (subject to any legal obligation to protect information)
- b) Discuss any matters with the Australian National Audit Office (ANAO) and Inspector-General of Intelligence and Security (IGIS), or other external parties (subject to confidentiality/security considerations)
- c) Request the attendance of any official, including the Director-General, at ASDARC meetings
- d) Obtain legal or other professional advice, as considered necessary to fulfil its role, at ASD's expense, subject to approval by the Director-General or delegate.

The ASDARC functions in an oversight, review and advisory role. The ASDARC has no executive powers, supervisory responsibilities or decision-making authority except to the extent provided for by the PGPA Act and Rules, or as delegated to it by the Director-General.

### 1.4 Membership

The ASDARC comprises up to six members, appointed by the Director-General. Members will consist of at least:

- Two internal Commonwealth staff members; and
- Up to four external members, at least one who is not an official of ASD<sup>3</sup>

The Director-General will appoint the Chair of the ASDARC. The ASDARC is authorised to appoint a Deputy Chair who will act in the absence of the Chair.

The Director-General, ASD's Chief Financial Officer (or equivalent), the Head of Internal Audit (or equivalent), or other management representatives may attend ASDARC meetings as advisers or observers, as determined by the Chair, but will not be members of the ASDARC. The Chair may also invite other attendees, as deemed necessary to provide advice and/or information in relation to any issue scheduled for discussion<sup>4</sup>.

A representative(s) of the ANAO may also be invited to attend ASDARC meetings as an observer.

ASDARC members, taken collectively, will have a broad range of skills and experience relevant to the operations of ASD. At least one member of the ASDARC will have accounting or related financial management experience, with an understanding of accounting and auditing standards in a public sector environment. Membership of the ASDARC is a personal appointment based on individual skills and experiences. Members cannot send a proxy to meetings<sup>5</sup>.

ASDARC members will be appointed for an initial period not exceeding three years. Members may be re-appointed after a formal review of their performance, for a further period not exceeding two years, unless otherwise agreed, following discussions with the Chair and the Director-General.

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<sup>2</sup> As defined in section 3 of the *Intelligence Services Act 2001*.

<sup>3</sup> Public Governance, Performance and Accountability (Australian Signals Directorate Section 105D) Determination 2018.

<sup>4</sup> Consistent with subsection 17(3) of the PGPA Rule

<sup>5</sup> Consistent with subsection 17(5) of the PGPA Rule and Resource Management Guide 202

## 2. Functions

In accordance with Section 17(2) of the PGPA Rule, the mandatory functions of the ASDARC must include reviewing the appropriateness of the accountable authority:

- a) Financial reporting;
- b) Performance reporting;
- c) System of risk oversight and management; and
- d) System of internal control.

The following sections set out the ASDARC's functions in relation to the above requirements, as well as other functions and responsibilities.

### 2.1 Financial reporting

- Review the financial statements and provide advice to the Director-General (including recommending their signing by the Director-General). In particular, the ASDARC will review:
  - ASD's compliance with Australian accounting standards
  - The appropriateness of accounting policies and disclosures, including any significant changes to accounting policies
  - Areas of significant judgment and financial statement balances that require estimation
  - Significant or unusual transactions
  - Sign-off by ASD's management in relation to the quality of the financial statements, internal controls and compliance
  - The external auditor's judgments about the adequacy of ASD's accounting policies and the quality of ASD's processes for the preparation of ASD's financial statements, through discussions with the ANAO
  - Whether appropriate management action has been taken in response to any issues raised by the ANAO, including financial statement adjustments or revised disclosures
  - Additional information to be included, in ASD's Annual Report to ensure it is consistent with the signed financial statements.
- Act as a forum for communication between ASD's management and the ANAO.
- Review the processes in place designed to ensure that financial information included in ASD's Annual Report is consistent with the signed financial statements.

### 2.2 Performance reporting

- Review ASD's systems and procedures for assessing and reporting the achievement of ASD's performance. In particular, the ASDARC will satisfy itself that:
  - ASD's Portfolio Budget Statements and Corporate Plan include details of how ASD's performance will be measured and assessed
  - ASD's approach to measuring and assessing 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
  - ASD has sound processes in place for the preparation of its annual Performance Statement and the inclusion of the statement in its Annual Report

- ASD's proposed Performance Statement is consistent with ASD's financial information, including the financial statements that it proposes to include in its Annual Report.
- The ASDARC will provide a statement to the accountable authority whether in their view, the accountable authority's annual performance statements and performance reporting as whole is appropriate, with reference to specific areas of concerns or suggestions for improvement.

## **2.3 System of risk oversight and management**

- Review whether management has in place a current and sound enterprise risk management framework, and associated internal controls, for effective identification and management of ASD's business and financial risks, including fraud and corruption.
- The ASDARC must satisfy itself that a sound approach has been followed, in managing ASD's highest risks, by ASD's governance committees, including those associated with individual projects, program implementation, and activities.
- Review the process of developing and implementing ASD's fraud control arrangements and satisfy itself that ASD has appropriate processes and systems in place to deter, detect, capture and effectively respond to fraud risks.
- Review reports, by management, that outline any significant or systemic allegations of fraud, the status of any ongoing investigations and any changes to identified fraud risk in ASD.
- Periodically commission an ASD-wide assurance map that identifies ASD's key assurance arrangements.
- The ASDARC will provide a statement to the accountable authority whether in their view, the accountable authority's systems of risk oversight and management as whole is appropriate, with reference to the Commonwealth Risk Management Policy and any specific areas of concerns or suggestions for improvement.

## **2.4 System of internal control**

### **Internal Control Framework**

- Review management's approach to maintaining an effective internal control framework; this framework should include controls in relation to functions performed by external parties such as contractors and advisers.
- Review oversight policies and procedures, including ASD Director-General Financial Instructions or their equivalent, and ensure these are periodically reviewed and updated.
- Review ASD's compliance framework and the arrangements developed to ensure compliance with policies and procedures.
- Satisfy itself that appropriate processes are in place to assess whether there is compliance with key policies and procedures.
- Satisfy itself that management periodically assesses the adequacy of ASD's information security arrangements, including complying with ASD reporting obligations.

### **Legislative and Policy Compliance**

- Review the effectiveness of systems for monitoring ASD compliance with laws, regulations and associated government policies with which ASD must comply.
- Determine whether management has appropriately considered legal and compliance risks as part of ASD's Enterprise Risk Management Plan.

### **Internal Audit Coverage**

- Review the proposed internal audit coverage, ensure the coverage takes into account ASD's key risks, and recommend approval of the Internal Audit Work Plan by the Director-General.
- Review all audit reports and provide advice to the Director-General on significant issues identified in audit reports, recommend action on significant issues raised, and advise on good practice.

### **Business Continuity Management**

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

### **Delegations**

Review whether appropriate policies and associated procedures are in place for the management and exercise of delegations and authorisations.

### **Ethical and Lawful Conduct**

- Assess whether management has taken steps to embed a culture that promotes the proper use and management of public resources and is committed to ethical and lawful conduct.
- The ASDARC will provide a statement to the accountable authority whether in their view, the accountable authority's systems of internal control as a whole is appropriate, with reference to any specific areas of concerns or suggestions for improvement.

## **2.5 Other functions**

### **Administration of the Internal Audit Function**

- Advise the Director-General on the adequacy of internal audit resources, or budget, to carry out its responsibilities, including completion of the approved Internal Audit Work Plan.
- Coordinate, to the extent possible, the work programs of internal audit and other assurance or review 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 Director-General.
- Provide advice, if requested, to the Director-General on the appointment of the Head of Internal Audit (or equivalent), or recommend to the Director-General the appointment of an internal audit service provider where the internal audit function is outsourced or co-sourced.
- Periodically meet privately with the Head of Internal Audit (or equivalent).

### **Governance Arrangements**

Periodically review ASD's governance arrangements or elements of the arrangements as determined by the Director-General and suggest improvements, where appropriate, to the Director-General.

### **Engagement with the ANAO**

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

- a) Provide input on planned ANAO financial statement and performance audit coverage
- b) Monitor management's responses to all ANAO financial statement management letters and performance audit reports, including the implementation of audit recommendations



- c) Provide advice to the Director-General on action to be taken on significant issues raised in relevant ANAO reports or better practice guides.

### **Annual Work Plan**

As far as practical, the ASDARC should indicate which matters it will consider during any given year in a forward meeting plan, noting that it may consider other or additional matters in response to changes in the ASD's operations and environment. The forward meeting plan will include the proposed agenda items for each meeting for the forthcoming year, and cover all of the functions outlined in this charter.

### **Sub-committees**

In consultation with the Director-General, the ASDARC may establish one or more subcommittees to assist in meeting its responsibilities.

The responsibilities, membership and reporting arrangements of each sub-committee shall be documented and approved by the ASDARC.

The ASDARC sub-committees should not assume any management functions nor should management exert inappropriate influence over the work of sub-committees.

### **Reporting**

The Chair of the ASDARC will report the principal proceedings and actions from each meeting to the Director-General as soon as possible after each meeting. The Chair will report on the ASDARC's operation and activities during the year and confirm to the Director-General that all functions outlined in this Charter have been satisfactorily addressed.

The ASDARC may, at any time, report to the Director-General on any other matter it deems sufficiently important. In addition, at any time an individual ASDARC member may request a meeting with the Director-General.



### **3. Administrative arrangements**

#### **3.1 Meetings**

The ASDARC will meet at least quarterly. One or more special meetings may be held to review ASD's annual financial and performance statements, or to meet other specific responsibilities of the ASDARC. Additional papers may be circulated to Audit Committee members for review out-of-session.

The Chair is required to call a meeting if asked to do so by the Director-General, and decide if a meeting is required if requested by another member or other interested party, such as the Head of Internal Audit (or equivalent), or the ANAO.

The accountable authority, or representative, will attend the members only session at the commencement of ASDARC meetings to provide members with an overview of key priorities and risks. ASD Group Heads or their delegate will present at each meeting, on rotational basis, to provide the ASDARC with an overview of priorities, risks, and performance reporting and governance arrangements.

#### **3.2 Planning**

The ASDARC 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 of the functions outlined in this Charter.

#### **3.3 Quorum**

A quorum will consist of a majority of ASDARC members (at least four). As there may be up to four external members on the ASDARC, a quorum will include at least two external members. The quorum must be in place at all times during the meeting.

#### **3.4 Secretariat**

The OAR will provide secretariat support to the ASDARC. The secretariat will ensure that:

- a) The agenda for each meeting is approved by the Chair
- b) The agenda and supporting papers are circulated, at least one week before the meeting
- c) The minutes of the meetings are prepared, maintained, and circulated in a timely manner to each member, and committee advisers and observers as appropriate.

#### **3.5 Independence**

The ASDARC is directly accountable to the Director-General for the performance of its functions.

The ASDARC has no executive powers in relation to the operations of the ASD. The ASDARC may only review the appropriateness of particular aspects of those operations, consistent with its functions and advise the Director-General accordingly.

Responsibility for the appropriateness of the ASD's financial reporting, performance reporting, system of risk oversight and management, and system of internal control rests with Director-General.

#### **3.6 Conflicts of interest**

Once a year, members of the ASDARC will provide written declarations, through the Chair, to the Director-General declaring any material personal interests they may have in relation to their responsibilities. External members should consider past employment, consultancy arrangements and other relevant issues in making these declarations, and the Director-General, in consultation with the Chair, should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.

At the beginning of each ASDARC meeting, members are required to declare any material personal interests that may apply to specific matters on the meeting agenda. Where required by the ASDARC, the member will be excused from the meeting or from the ASDARC's consideration of the relevant

agenda item(s). The Chair is also responsible for deciding, in consultation with the Director-General where appropriate, if they should excuse themselves from the meeting or from the ASDARC'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.

### **3.7 Induction**

New members will receive relevant information and briefings on their appointment to assist them in meeting their committee responsibilities.

### **3.8 Audit Committee performance**

The Chair of the ASDARC, in consultation with the Director-General, will undertake a review of the performance of the ASDARC at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Director-General) with appropriate input sought from the Director-General, Committee members, senior management, the OAR, the ANAO, and any other relevant stakeholders, as determined by the Director-General.

The Chair will provide advice to the Director-General on an external member's performance where an extension of the member's tenure is being considered.

### **3.9 Review of charter**

At least once a year the ASDARC will review this Charter. This review will include consultation with the Director-General. Any substantive changes to the Charter will be recommended by the ASDARC and formally approved by the Director-General.