This presentation provides an overview of the Victorian Auditor-General’s report *Audit Committee Governance*. 
Audit committees play a key role in the governance framework of government departments in Victoria. Their role is to provide departmental management with an independent and objective source of advice on matters including financial reporting, risk management, and internal and external audit.
The audit reviewed the governance arrangements for audit committees in all seven state government departments as well as Victoria Police. It also assessed the level of compliance with the Standing Directions of the Minister for Finance (Standing Directions) and the extent to which good practice is being applied across the audited agencies.
While the governance arrangements for audit committees are generally effective, there are several key areas where there is room for improvement. These include the need for agencies to:

- ensure that their audit committee maintains the required mix of skills, and
- regularly and comprehensively assess the performance of committee members and the effectiveness of their audit committee.

The Standing Directions were recently reviewed, and the changes make addressing these gaps even more important.
We are most concerned that the revised requirements reduce the obligations on audit committees by limiting the management actions they are required to monitor—under the 2016 Standing Directions, audit committees are only required to monitor actions that relate to or impact on ‘financial management, performance and sustainability’. The express requirement to review the impact of management actions—ensuring that underlying issues have been effectively resolved—has also been removed.
These changes are a backward step that could lead to agencies failing to address the underlying issues and risks that have been identified by internal and external audits.

Further, these changes underscore the importance of effective governance arrangements for audit committees.

While these changes were made in response to concerns that the previous Standing Directions went beyond the bounds of the Financial Management Act 1994, they have resulted in Victoria’s legislative framework now being inconsistent with best practice for audit committees—including the Department of Treasury & Finance’s own guidance which recommends that committees monitor all recommendations. It also puts Victoria behind New South Wales and the Australian Capital Territory where this is a requirement.
The recommendations are designed to improve gaps in the governance arrangements for audit committees and to ensure committees are fully effective in light of the recent changes to legislative requirements.

All agencies have accepted the recommendations.
For further information, please view the full report on our website: www.audit.vic.gov.au