

# Local Government Audit Panels

A practice guide

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# I. Introduction

In Tasmania, the legislative framework which governs the functions, activities and accountabilities for local government is the *Local Government Act 1993* (the Act) and associated statutory rules in the form of regulations and ministerial orders.

The audit function is recognised as a critical component in the accountability and governance framework of any local government entity and, under the Act, all Tasmanian councils are required to establish and maintain an audit panel.

A distinguishing feature of an audit panel is its independence and objectivity from management and governance functions. For councils, an audit panel provides an independent mechanism to review council processes and decision-making. However, they are not responsible for management activities, nor can they act as a substitute for management controls or the accountability functions of a council.

Historically, audit panels focused on financial reporting, accounting activities, internal controls and the integrity of accounting systems. Audit panel functions have evolved and now have a much broader mandate. They cover risk management (including fraud prevention strategies), financial and non-financial performance, compliance and other assurance activities not directly related to a council's financial report. Audit panels also provide an independent check of key council plans and activities and highlight issues that require strategic attention, including the review of policies, systems and controls relating to a council's administration, culture and personnel.

It is critical that councils provide adequate resource support to their audit panels to ensure they are able to discharge their responsibilities effectively. Resources may include council employees, training and development of councillors who are panel members, and the appointment of internal auditors who can be in-house, outsourced or co-sourced.

A successful audit panel will provide assurance that council decisions are made in the interests of the community with particular regard to:

- proper management practices across financial and operational activities;
- compliance with all legislative and policy requirements; and
- the adoption of leading practice in all aspects of governance.

Audit panels provide checks and balances to give elected members another source of scrutiny and a means of highlighting issues that require strategic attention. This can be invaluable to a council, by contributing to the avoidance of reputational damage and helping to ensure rate-payers are receiving the best possible oversight over the management of their assets.

## 1.1 Purpose of the Guide

This *Local Government Audit Panels – A practice guide* (the Guide) is consistent with the requirements under Tasmanian legislation and is designed to complement the mandatory provisions of the Act.

The Guide has been developed by the Department of Premier and Cabinet's Local Government Division in collaboration with the Tasmanian Audit Office and the Local Government Association of Tasmania to provide context and practical information for councils on audit panel functions and membership.

## 1.2 Terminology

**Act** means the *Local Government Act 1993*.

**Annual audit** means the financial audit undertaken by the Auditor-General of Tasmania, as mandated by the *Audit Act 2008* (Audit Act)<sup>1</sup>, with the assistance of the Tasmanian Audit Office (TAO).

**Audit panel** means an audit panel that a council is required to establish under section 85(1) of the Act.

**Chairperson** means the chairperson of the audit panel.

**Chief financial officer (or equivalent)** means the council staff member/contractor responsible for council accounting systems, controls and the preparation of the council's financial statements.

**Commissioner** means a person appointed under sections 230 or 231 of the Act to exercise the powers and perform the functions of the councillors.

**Council member** means the councillor representing the council on the respective council's audit panel.

**Financial statements** means the annual financial statements required under section 84 of the Act and produced in accordance with the Audit Act.

**Independent persons** means members of the audit panel who are not councillors of the respective council.

**Internal auditor** means the independent firm that may be engaged, or person(s) who may be employed by the council, to assist the audit panel undertake its responsibilities and complete its activities.

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<sup>1</sup> The *Audit Act 2008* sets out the roles and responsibilities of the Auditor-General and, consequently, the Tasmanian Audit Office who assists the Auditor-General to provide an independent view of the financial and operational performance of State entities, including councils.

**Management** means employees of a council tasked with managing the council's operations and daily functions.

**Plan** means a strategic plan, an annual plan, a long-term financial management plan or a long-term strategic asset management plan of a council prepared under Division 2 of Part 7 of the Act.

### 1.3 Regulatory context

The Act sets out the legislative framework for the functions, activities and accountabilities for local government in Tasmania. Amendments to the Act, proclaimed in February 2014, mandated the requirement for councils to establish and maintain an audit panel:

- Part 8, Division 4 of the Act provides the head of power to mandate the establishment and maintenance of an audit panel.

These amendments were complemented with Ministerial Orders:

- Statutory Rule No. 34 of 2014, the *Local Government (Audit Panels) Order 2014* (the Audit Panel Order), which defines the minimum requirements with respect to an audit panel's membership, functions, reporting schedule, resourcing and accountability; and
- Statutory Rule No. 79 of 2015, the *Local Government (Audit Panels) Amendment Order 2015*, which removes the eligibility of a councillor or employee of another municipal council from being a member of an audit panel.

A list of relevant legislation, standards and other guides is provided in Appendix A.

## 2. The functions of an audit panel

An audit panel acts as an advisory committee to a council, and its broad functions are to:

- rigorously review and assess council performance; and
- make recommendations to a council on strategic and operational matters that may require attention.

The Audit Panel Order broadly sets out the minimum requirements of an audit panel. Under the Order, when an audit panel reviews the council's performance it is to consider:

- whether the annual financial statements of the council accurately represent the operations and state of affairs of the council;
- whether and how the strategic plan, annual plan, long-term financial management plan and long-term strategic asset management plans of the council are integrated and the processes by which, and assumptions under which, those plans were prepared;
- the accounting, internal control, anti-fraud, anti-corruption and risk management policies, systems and controls that the council has in relation to safeguarding its long-term financial position;

- whether the council is complying with the provisions of the Act and any other relevant legislation; and
- whether the council has taken any action in relation to previous recommendations provided by the audit panel to the council and, if it has, what that action was and its effectiveness.

The Order prescribes a range of functions of an audit panel that extend well beyond the financial aspects of the council. It is necessary for an audit panel to review council performance with respect to corporate governance, legislative and policy compliance, procurement activities, risk management and internal control and decision-making.

Importantly, the audit panel does not and cannot absolve a council of its responsibilities or accountability. The audit panel is an independent source of advice for the council and under no circumstances can a council delegate its responsibilities to the audit panel.

The following sections provide further guidance on the functions of an audit panel.

## 2.1 Financial activities

While the functions of audit panels have a broad mandate beyond the financial aspects of a council, it is nonetheless a fundamental role of the audit panel to review, advise and make recommendations to the council on its financial performance and management practices.

### 2.1.1 Financial management

Ultimately, the day-to-day management of a council's finances and the budget lies with the council's chief financial officer, or equivalent (CFO). The CFO is also responsible for reporting to the general manager on the current state of the financial affairs of the council.

The role of an audit panel is not to assess the performance of the CFO or the general manager. Rather, it is the audit panel's role to:

- monitor the integrity of the council's financial reports and statements (both regular reports to councils and the annual statements to be published in the Annual Report) and review any significant financial reporting issues and judgements contained in the reports; and
- review and provide recommendations on:
  - the consistency and adequacy of the council's accounting policies and practices;
  - the methods used to account for significant or unusual transactions;
  - whether or not the council has followed appropriate accounting standards (for example the Australian Accounting Standards) and has made appropriate estimates and judgements, including whether or not it has considered TAO views;
  - the clarity of disclosure in the council's financial statements and reports, and the context within which the statements are made; and
  - all material information presented within the council's financial reports and statements.



### 2.1.2 Annual audit

As required by the Audit Act, Tasmanian councils are audited annually through submission of their financial statements to the Auditor-General. The audit panel has a role to play with the annual audit, which includes a review of:

- the accuracy of financial statements in representing the state of affairs of the council, supported with appropriate management and audit sign-off;
- compliance of the financial statements with relevant standards;
- any action taken with respect to issues arising from TAO audit reports and practice guides; and
- any significant accounting and reporting issues, including management decisions, significant changes to the council's internal accounting practices, controls and procedures, with specific reference to large and unusual transactions.

The panel will also provide assurance that the audited financial statements are correctly reflected in the annual report.

Further, the panel may review the assumptions, judgements and estimates on which the council has based its financial forecasts and budgets.

## 2.2 Governance activities

In addition to functions related to the financial activities of a council, audit panels have a responsibility to ensure that councils employ a strong governance framework underpinned by:

- an ethical workplace culture;
- appropriate policies and procedures;
- mechanisms for monitoring legislative compliance;
- effective internal audit of policies and practices;
- robust internal and fraud management controls;
- a risk management framework; and
- accountable and transparent council decision-making.

There is a strong relationship between the financial and non-financial roles and responsibilities of a council as, ultimately, the financial performance of a council is dependent not only on its financial management, but also the efficacy of its governance and operational processes. As a consequence, an audit panel may undertake an overall assessment of some council governance and operational processes, and review how well those processes integrate with the financial management practices of the council.

### 2.2.1 Long-term planning

The Act requires councils to develop and maintain the following integrated documents:

- strategic plan, prepared in consultation with the community and authorities and bodies considered appropriate (minimum 10 years);
- long-term financial management plan (minimum 10 years);
- financial management strategy;
- long-term strategic asset management plans for major asset classes (minimum 10 years);
- asset management strategy; and
- asset management policy.

The ownership of the above documents lie with the council and the council must develop and administer the plans, strategies and policies with transparency and accountability. These plans must also be reviewed by the council at least every four years. For such a planning framework to be effective, the role of the audit panel should include reviewing:

- whether the plans, strategies and policies are integrated;
- the veracity and appropriateness of information contained within these documents; and
- demonstrated adherence to the plans, strategies and policies, including performance against identified benchmarks.

For example, an audit panel should monitor actual budget performance against the long-term financial plan and advise the council where significant variances occur.

### 2.2.2 Integrated internal control and risk management framework

The development and implementation of a robust and integrated internal control and risk management framework is the responsibility of the council. However, the audit panel has a key role in overseeing and monitoring its effectiveness and application.

A strong internal control and risk management framework provides a solid foundation for a sustainable, accountable and robust organisation that is protected from exposure to unlawful activity, such as a failure to comply with legislative requirements and fraud. It also provides assurances that the council's practices do not put at risk the council's employees, volunteers and contractors, assets, projects, services and reputation.

Such a framework is based on clear, current and relevant policies that are implemented. It also encourages a distinct ethical and law-abiding culture, with supporting systems that are adopted by the council and promoted by the elected members and council management.

An audit panel should review whether the council possesses:

- an effective risk management system;

- an effective procurement process;
- adequate internal controls in place to safeguard the council's financial sustainability and assets; and
- internal processes for determining and managing material operating risks in the following areas:
  - potential non-compliance with legislation, regulations and standards and internal council policies and procedures;
  - important accounting judgements or estimates that prove to be incorrect;
  - litigation, claims and complaints against the council;
  - fraud, theft and other illegal and unethical behaviour; and
  - significant business risks (such as workplace health and safety, public perception, technology and project management) and how these are managed by the council.

### 2.2.3 Legislative compliance and ethics

Councils must be accountable and transparent in their business and uphold an expectation of ethical conduct by councillors, management and employees. An audit panel plays a pivotal role in assessing the compliance programs a council has in place, by:

- monitoring compliance with legislation, regulations, internal policies and codes, in particular those relating to conflicts of interest and procurement;
- reviewing whether or not the council has in place all policies required under the Act, and whether or not they are reviewed in accordance with provisions in the Act;
- reviewing programs, policies and procedures for completeness, accuracy and integration; and
- reviewing the extent to which management has put arrangements in place to foster and maintain an internal culture that is committed to ethical and lawful behaviour, and monitoring the effectiveness of those arrangements.

## 3. Membership of an audit panel

### 3.1 Requirements of the legislation

To ensure that all Tasmanian councils have access to an appropriate audit panel, there is a degree of flexibility in the minimum requirements outlined in the Audit Panel Order for membership of an audit panel. Councils are encouraged to liaise with each other in the selection of their audit panels. This may involve councils sharing audit panel resources and independent members.

Section 5 of the Audit Panel Order requires that an audit panel:

- is appointed by the council;

- must have between three and five members (inclusive); and
  - if the panel has four or five members, a minimum of two must be independent persons; and
  - if the panel has three members, at least one must be an independent person.
- may contain a councillor or councillors, other than the mayor of the council;
- may contain an independent member or members of another council's audit panel; and
- may be appointed for a period of one to four years, and can be reappointed once their term expires.

An audit panel must not contain:

- the general manager, mayor or a council employee of the council; or
- a councillor or employee of another council.

If a commissioner has been appointed to perform the functions of a council, then the audit panel may comprise the independent members (including the chairperson) and the commissioner.

Immunity from liability for members of an audit panel is provided under section 341 of the Act, whereby audit panel members would not be held personally liable for an honest act or omission made while performing their functions as a member of an audit panel. A liability that would be held against a member of an audit panel would lie against the council that established the panel.

## 3.2 Desirable skills and experience

In selecting appropriate members for an audit panel it is important for a council to consider the relevant skills and experience required by an audit panel. Audit panel members must possess good business acumen and sound management and communication skills. The composition of an audit panel (both independent members and councillor(s)) should include a balance of professional skills, knowledge and technical expertise, as well as sufficient capacity, independence and objectivity to discharge its responsibilities.

Councils may also take the following into account when appointing audit panel members:

- knowledge and expertise in the areas of audit practices and financial management and reporting;
- knowledge of, and experience in, relevant industries; and
- experience with governance processes including, but not limited to, risk management.

Where appropriate, relevant education and training should be provided to councillors who are members of audit panels, to ensure they are sufficiently equipped to competently contribute to audit panel functions.

### 3.3 The audit panel chairperson

Councils must choose an independent member for the role of chairperson. The chairperson plays a pivotal role in the efficacy of an audit panel. The overall work plan and activities of an audit panel are driven by the chairperson who has their own set of responsibilities, above and beyond that of the other audit panel members and the panel as a whole. The chairperson is responsible for the operation and performance of the audit panel, ensuring the panel meets its legislative requirements, meets the milestones outlined in its work plan, and performs satisfactorily for the council.

The council should select an audit panel chairperson who possesses:

- knowledge of the duties and responsibilities of the position, especially with respect to local government financial reporting and auditing requirements;
- requisite local government knowledge, and financial, governance and leadership skills;
- an ability to build good relationships; and
- strong communication skills.

### 3.4 Transparency, independence and confidentiality

Arguably, the most important facet of an audit panel is its independence and objectivity. An audit panel will achieve some independence by having its independent members external to the council and its operations. It is also imperative that audit panel members exhibit an independence of mind in their deliberations. In this context, while the Act allows elected members to be on audit panels, independence and separation from the elected council may be compromised by the presence of elected members, given that the council will refer to reviews undertaken by the audit panel when making decisions.

Independent members must be free from any management, business or other relationships that could interfere or be perceived to interfere with their ability to act in the best interests of the council. It is important for Audit Panel members to not only be independent, but also to be perceived in that way. This also means that potential pecuniary or non-pecuniary interests are in the first instance avoided, or at the very least openly declared. The Act provides the following:

- section 55B prescribes when an audit panel member has an interest;
- section 55C requires an audit panel member to declare interests and not participate in discussions or vote on matters in which the member has an interest; and
- section 55D requires the general manager to keep a register of audit panel member interests.

Audit Panel chairpersons are required to ensure the declarations of interest are recorded in the minutes and reports of audit panel meetings and the respective members are required to notify the general manager of the council within 7 days of the interest declared.

To maximise both the real and perceived independence of audit panel members, councils should consider individuals' past and current relationships with the council.

Some relationships that might affect the independence of an audit panel member include the following:

- the member is a substantial shareholder, owner, officer or employee of a company, or a consultant, that is a material provider of professional advice, goods, or services to the council; or
- the member has previously been employed by the council and there has not been a period of at least two years since ceasing such employment; or
- the member has provided consulting services regarding a particular operation/service of the council.

This list is not exhaustive and if one or more of the above examples is exhibited by an independent member, it is possible that their independence and objectivity (both real and perceived) may be compromised.

Members and potential members of an audit panel need to ensure they disclose to the council any relationships that could be viewed by other parties as pecuniary or non-pecuniary interests that may impair either the individual's or the audit panel's actual or perceived independence. Before finalising audit panel membership, evidence of the independence of panel members and perceived conflicts of interest must be addressed and publicly disclosed.

A permanent register of actual, potential and perceived conflicts of interest of all audit panel members should be maintained, together with an item on the agenda of every panel meeting to provide the opportunity for all panel members to indicate any likely conflicts related to the items on the agenda, and any changes to the permanent register.

An independent member of an audit panel would not normally be captured by Australian Accounting Standard AASB 124 *Related Party Disclosure* due to their inability to make decisions on behalf of the council. However, the Standard may provide useful guidance to manage perceptions about a panel member's independence.

In addition to the requirements to declare any interests, the Act requires an independent member of the audit panel to be bound by the same rules as a councillor in relation to the disclosure of confidential information, improper use of information and misuse of office.

These requirements reflect the audit panel members' responsibility regarding their access to confidential, and often sensitive, council information. As such, the same level of accountability on the use of that information is applied.

## 4. Code of conduct

An audit panel code of conduct can be used to clearly set out the standards of behaviour expected of audit panel members. The standards should support the characteristics of good governance as outlined in the *Good Governance Guide for Local Government in Tasmania*.

A model code of conduct for members of the audit panel is found at Appendix B. It includes expectations in relation to:

- effective management of conflicts of interest;
- proper use of council information;
- proper use of position; and
- appropriate interactions of members.

The code should be approved by the council and, where appropriate, should reference relevant council policies and procedures to provide additional guidance for audit panel members.

## 5. Audit Panel charter

The administrative arrangements of an audit panel should be articulated in an audit panel charter which is reviewed at least annually. The charter should outline the manner in which the audit panel is to perform its functions and the procedure of the audit panel meetings. It should include a comprehensive statement of the authority, responsibilities and reporting relationships of the audit panel, and be approved by the council.

A model audit panel charter template is attached at Appendix C and includes:

- the audit panel's objectives, scope, authority, and functions;
- the audit panel's membership, tenure and structure;
- detail on the secretariat and funding resources, including remuneration;
- meeting schedules and proceedings, including requirements on frequency, notice and minutes;
- reporting responsibilities;
- a requirement for a code of conduct for panel members; and
- appropriate access arrangements to records, personnel and physical property.

## 6. Audit Panel meetings and reporting

### 6.1 Meetings

Under the Audit Panel Order:

- the audit panel must meet a minimum of four times each financial year;
- a quorum of an audit panel meeting is constituted by a majority of the total number of members, including at least one independent member;
- the general manager or his or her delegate must attend meetings (unless a meeting is declared private);
- the CFO or his or her delegate must attend meetings (unless a meeting is declared private);
- the audit panel may invite or allow any council member or staff member of the council to attend meeting(s); and
- the audit panel may regulate its own proceedings in accordance with the provisions in the Audit Panel Order, the Act and its own charter.

Ultimately, an audit panel should meet with sufficient frequency to fulfil its responsibilities. The number and duration of meetings will vary depending on its work plan. Meeting agendas should include all matters referred to the audit panel that fit within its remit, so that it can determine which matters to include in its work plan.

The work plan should include coverage of all those matters included in its roles and responsibilities, and permit it to review and respond to all information and documents provided to it by council employees, the TAO and internal auditors (if employed or appointed).

In addition to the above sources of documents, the panel may receive correspondence from other parties, including councillors and members of the public, which may or may not be about matters that are outside the scope of the panel's responsibilities. The panel should develop a policy to guide the way in which it responds to such correspondence, noting that the panel is not expected to be a forum for complaints and noting that there are a number of other organisations which undertake this role, for example the Director of Local Government, the Ombudsman, the Integrity Commission and Tasmania Police.

Audit Panels should also cater its meeting schedule and work plan to best suit the annual audit plan and the timing of key council deliverables such as the annual report. Where significant issues arise or are expected during the financial year, the audit panel should consider the need to schedule additional meetings.

An appropriate level of funding should be allocated by the council in its annual budget to ensure the adequate functioning of the audit panel, including the ability to undertake some discretionary activities. Resourcing should be an issue discussed by the panel and the general manager as part of the council's annual budget development processes and may include the appointment of internal



auditors for the council and/or the utilisation of council employees to provide ongoing or project-specific advice and support to the panel.

The chairperson should provide notice of upcoming meetings, confirming the venue, time and date, together with an agenda of items to be discussed. This information should be provided to audit panel members and other observers no later than seven days clear of the scheduled date of the meeting. Supporting documentation required for discussion at the meeting should be supplied at the same time.

In order for the audit panel to conduct its work, its meetings must have a quorum. A quorum is constituted by a majority of members, one of whom must be independent. That is, for a four or five member panel, a quorum will be at least three members in attendance, and for a three member panel, at least two members must be in attendance. Further, without at least one member who is an independent person present at a properly called audit panel meeting, a quorum cannot exist. If a quorum does not exist, then no business can be considered except that another meeting should be called.

Audit panels should regularly meet in private, that is, without management present. Such private sessions should occur at least once each year and include discussions with the council's internal and external auditors.

The audit panel should ensure the proceedings, recommendations and resolutions of all audit panel meetings are minuted appropriately and accurately.

While the *Local Government (Meeting Procedures) Regulations 2015* prescribes meeting procedures for councils and council committees, they do not apply to audit panel meetings. However, audit panels are encouraged to consult the regulations for guidance and adopt leading practices for their meetings.

## 6.2 Reporting

Reporting of audit panel meeting outcomes is undertaken through the provision of the meeting minutes to the council as soon as reasonably practicable after each meeting. Once compiled, draft meeting minutes should be circulated to all audit panel members for confirmation, before being distributed to the council. If the minutes, or sections of the minutes, contain sensitive information, the panel may recommend that the council considers these in a closed council session, consistent with provisions in the *Local Government (Meeting Procedures) Regulations 2015*.

The minutes must be formally confirmed at a subsequent meeting of the panel.

In the event the audit panel has conducted and completed a review, the audit panel must provide a written report of its conclusions and recommendations to the council. The report may be recommended for consideration in an open or closed council meeting, depending on the matters examined in the review.

To maximise transparency, all minutes and reports of the audit panel should be published by the council, subject to any legal obligation to protect information, as set out in in the *Local Government (Meeting Procedures) Regulations 2015*.

An annual report of the audit panel's activities should be provided to the council and published on the council's website. The annual report should include:

- a summary of the work undertaken and significant findings during the past year;
- a review of the panel's charter and, if required, recommended changes to council for its approval;
- an update on the membership of the panel, in particular if there have been or may be change;
- the significant aspects of the panel's deliberations for the coming year, together with a proposed work plan for the coming year; and
- any other matters deemed, by the panel, as requiring the council's attention.

It would be appropriate for the chairperson of the audit panel to present the annual report at an open council meeting. In addition, it may be beneficial if the chairperson also briefs the council in relation to specific and significant activities and reports of the panel.

## 7. Annual work plan

The audit panel is required to develop an annual work plan that includes, but is not limited to, a schedule of meetings and known objectives for each meeting. This will assist the audit panel to perform its functions efficiently and effectively. All items that fit within its remit that are referred to an audit panel by the council or by parties other than the council should be brought before the audit panel so it can determine which discretionary items it will prioritise for inclusion in its work plan. The plan should be reconciled against the audit panel charter, if it has one, to ensure all the panel's responsibilities are covered.

When defining a work plan and number of meetings, an audit panel should account for:

- the functions of the panel;
- maturity of the panel and audit arrangements;
- the level and/or volume of internal and annual audit activity;
- key reporting deadlines;
- significant developments or emerging risks for the council, for example restructuring, policy initiatives or new programs; and
- the potential resource implications versus the benefit to the audit panel and the council of the projects and activities proposed in the plan.

The content of the work plan will depend on the resources available to the panel to undertake its roles and responsibilities. These resources will include council employees and may also include training and development of members and the appointment of an internal auditor.

Audit panels should undertake an annual self-assessment of their own performance, including a review of their work plan to ensure it maintains relevance. It is accepted that not all activities of a council that require audit will be subject to review by the audit panel every time it convenes, or even on an annual basis. However, it is important to ensure that the panel is able to provide the council with a level of confidence in relation to the financial, risk and governance activities of the organisation.

A list of activities that an audit panel may undertake as part of its work plan is provided at Appendix D

## Appendix A – Relevant legislation, standards and other guides

Document	Source
<i>Audit Act 2008</i>	<a href="http://www.legislation.tas.gov.au">www.legislation.tas.gov.au</a>
<i>Australian Accounting Standards</i>	<a href="http://www.aasb.gov.au">www.aasb.gov.au</a>
<i>Good Governance Guide for Local Government in Tasmania</i>	<a href="http://www.dpac.tas.gov.au/divisions/local_government">www.dpac.tas.gov.au/divisions/local_government</a>
<i>International Standards for the Professional Practice of Internal Auditing</i>	<a href="http://www.iaa.org.au">www.iaa.org.au</a>
<i>Local Government Act 1993</i>	<a href="http://www.legislation.tas.gov.au">www.legislation.tas.gov.au</a>
<i>Local Government (Audit Panels) Order 2014</i>	<a href="http://www.legislation.tas.gov.au">www.legislation.tas.gov.au</a>
<i>Local Government (Audit Panels) Amendment Order 2015</i>	<a href="http://www.legislation.tas.gov.au">www.legislation.tas.gov.au</a>
<i>Local Government (Meeting Procedures) Regulations 2015</i>	<a href="http://www.legislation.tas.gov.au">www.legislation.tas.gov.au</a>

# Appendix B – Model code of conduct for members of the audit panel

This code of conduct sets out the standards of behaviour expected of the [*name of Council*]'s Audit Panel members (members). The standards support the characteristics of good governance outlined in the *Good Governance Guide for Local Government in Tasmania* (reference below).

As an independent source of scrutiny in the interests of the community, the Audit Panel provides checks and balances on key Council activities and a means of highlighting issues that require strategic attention.

Councillors who are members of the Audit Panel are in a unique position and have an obligation to maintain an Audit Panel perspective in the interests of the community when they discharge their duties as Panel members, ie they must display independence of mind, separate from their role as a councillor.

In performing their role on the [*name of Council*]'s Audit Panel, and in acting in the best interests of the community, all members of the [*name of Council*] Audit Panel commit to the following standards.

## 1. Effective management of conflicts of interest

Members avoid conflicts of interest that arise between their personal interests and their public duty as an Audit Panel member, as far as reasonably possible. This includes pecuniary and non-pecuniary conflicts of interest (actual, potential or perceived). Where avoidance is not possible, members appropriately manage conflicts of interest. Members are responsible for acting in good faith and exercising reasonable judgment to manage conflicts of interest, including the offer or receipt of gifts and benefits.

Council members may at times deal with conflicts of interest as a consequence of their dual roles as an audit panel member and a councillor. This may present as a conflict between the interests of the community (as seen from the Audit Panel perspective).

All members will regularly provide advice of their actual, potential and perceived conflicts to the panel.

## 2. Proper use of Council information

Members maintain the confidentiality of any information, documents and communication that the Council or panel has designated as being in confidence. Members only access Council information needed for them to perform their role as a panel member and not for personal interests or reasons.

### 3. Proper use of position

Members perform their role in the best interests of the Council and the community. Members operate within the intended scope of the Audit Panel (as outlined in the Audit Panel Charter) and adhere to relevant Council policies and procedures.

### 4. Appropriate interactions

Members act ethically and treat all persons with fairness and respect. Members conduct themselves in a way that positively represents the panel, and is in the best interests of the Council and the community. Members interact appropriately with fellow members, councillors, Council staff and the community, and give full respect and consideration of to all relevant information known to them. Members should not interact directly with council staff without the prior approval of the panel and the general manager.

The Council has policies and procedures to provide additional guidance for members where indicated (\*) [*where appropriate, insert references to relevant Council policies and procedures*].

Further information on the ethical standards covered in this code of conduct, and the terminology used, can be found in the *Good Governance Guide for Local Government in Tasmania*: ([www.dpac.tas.gov.au/divisions/local\\_government](http://www.dpac.tas.gov.au/divisions/local_government)).

# Appendix C – Model audit panel charter

*Note: Councils are encouraged to review their existing Charters against this model taking into account each entity's particular circumstances.*

The [name of Council] (the Council) has established the Audit Panel in compliance with Division 4 of the *Local Government Act 1993* (the Act), the *Local Government (Audit Panels) Order 2014* (the Audit Panels Order) and the *Local Government (Audit Panels) Amendment Order 2015*.

This charter sets out the panel's objectives, authority, composition, tenure, functions, reporting and administrative arrangements.

## Objective

The objective of the Audit Panel is to review the Council's performance under section 85A of the Act and report to the Council its conclusions and recommendations.

## Authority

The Council authorises the Audit Panel, within its responsibilities, to:

- obtain any information it requires from any employee or external party (subject to any legal obligation to protect information);
- discuss any matters with the Tasmanian Audit Office (TAO), or other external parties (subject to confidentiality considerations);
- request the attendance of any employee, including members of the Council, at Audit Panel meetings; and
- obtain legal or other professional advice, as considered necessary to meet its responsibilities, to a pre-approved limit of \$[insert amount].

## Composition and tenure

The Audit Panel comprises [insert number] councillors and [insert number] independent members, appointed by the Council.

A person who is an employee, or the General Manager, or the Mayor of the Council is not eligible for appointment as a member of the panel.

A person who is an employee or councillor of another municipal council is not eligible for appointment as a member of the panel.

If a Commissioner is appointed to the Council, he or she may be appointed as a member of the panel.

The Council will appoint an independent member as the Chairperson of the panel.

Audit Panel members are appointed for a period of [not less than one year, and not exceeding four years].

Audit Panel members may be re-appointed at the approval of the Council.

## Functions

To comply with the Audit Panels Order, when reviewing the Council's performance the Audit Panel is to consider:

- the Council's financial system, financial governance arrangements and financial management;
- whether the annual financial statements of the Council accurately represent the state of affairs of the council;
- whether and how the strategic plan, annual plan, long-term financial management plan and long-term strategic asset management plans of the Council are integrated and the processes by which, and assumptions under which, those plans were prepared;
- the accounting, internal control, anti-fraud, anti-corruption and risk management policies, systems and controls that the Council has in relation to safeguarding its long-term financial position;
- whether the Council is complying with the provisions of the Act and any other relevant legislation; and
- whether the Council has taken any action in relation to previous recommendations provided by the Audit Panel to the Council and, if it has so taken action, what that action was and its effectiveness; and
- any other activities within the panel's remit, as determined by the panel.

## Key areas

In fulfilling its functions, the Audit Panel should consider the following key areas:

- corporate governance;
- systems of internal control;
- risk management frameworks;
- human resource management, including policies, procedures and enterprise agreements;
- procurement;
- information and communications technology governance;
- management and governance of the use of data, information and knowledge; and
- internal and external reporting requirements.



## Responsibilities of panel members

Members of the Audit Panel are expected to understand and observe the legal requirements of the Act and the Audit Panels Order. Members are also expected to:

- act in the best interests of the Council;
- apply sound analytical skills, objectivity and judgment;
- express opinions constructively and openly;
- raise issues that relate to the Audit Panel's functions and pursue independent lines of enquiry within the Panel's deliberations and meetings; and
- contribute the time required to review the papers provided.

## Reporting

The Audit Panel is to provide a copy of its meeting minutes to the Council as soon as practicable after each Audit Panel meeting.

If the Audit Panel has conducted a review under section 85A of the Act, the Audit Panel must provide a written report of its conclusions and recommendations to the Council as soon as practicable after the review is completed.

The Audit Panel must provide an annual report to the Council that comprises, at least:

- a summary of the work undertaken and significant findings during the past year;
- a review of the Panel's Charter and, if required, recommended changes to the Council for its approval;
- an update on the membership of the Panel, in particular if there have been or may be change;
- the significant aspects of the Panel's deliberations for the coming year, together with a proposed work plan for the coming year; and
- any other matters deemed, by the Panel, as requiring the Council's attention.

## Administrative arrangements

### Meetings

The Audit Panel will meet at least four times per year.

The Audit Panel is to regulate its own proceedings in accordance with this Charter.

The Chairperson may determine that a meeting is to be held in private.

The General Manager and CFO, or their delegates, are to attend Audit Panel meetings unless the Chairperson determines a meeting is to be held in private.

The Audit Panel may invite or allow any councillor and/or employee of the Council and/or representative of the TAO to attend meetings of the Audit Panel.

## Quorum

A quorum of the Audit Panel meeting is [*insert number*] members, including at least one independent member.

## Work plan

The Audit Panel is to develop an annual work plan that includes, but is not limited to, a schedule of meetings and the known objectives for each meeting.

All discretionary items referred to the Audit Panel that fit within its remit should be brought before the Panel so it can determine which items will be prioritised for inclusion in the work plan.

The forward meeting schedule should include the dates, location and proposed agenda items for each meeting.

## Secretariat

The Council, in consultation with the Audit Panel, will appoint a person to provide secretariat support to the Audit Panel. The secretariat will:

- ensure the agenda for each meeting is approved by the Chairperson;
- ensure the agenda and supporting papers are circulated at least one week prior to the meeting; and
- ensure the minutes of the meetings are prepared and submitted to the Council as soon as practicable after each meeting.

## Resources

The Audit Panel will hold at least annual discussions with the General Manager in relation to the resources to be made available to enable the Panel to meet its requisite functions and achieve its objectives.

## Interests

Audit Panel members must declare any real, potential or perceived pecuniary or non-pecuniary interests that may affect them in carrying out their functions. The Audit Panel member with the interest must also notify the General Manager of the Council, in writing, of the interest within seven days of declaring the interest.

Independent members are to consider past employment, consultancy arrangements and related party issues in making these declarations.

A standing item for declarations of interests should be included in all panel meeting agendas.

The Chairperson of the Audit Panel is to ensure that the declaration of an interest is recorded

in the minutes of the meeting and any relevant written report.

### Confidentiality

Panel members must maintain the confidentiality of any information, documents and communication that the Council or Panel has designated as being in confidence, and only access Council information in order to perform their role as a Panel member.

### Code of conduct

Audit Panel members are to abide by standards of behaviour in the *Code of Conduct for Members of the Audit Panel* [if the council has one].

### Induction

The Council will provide new Audit Panel members with relevant information and briefings on their appointment to assist them to meet their Audit Panel responsibilities.

### Remuneration

Independent members of the Audit Panel shall be paid [an annual fee of \$XXX][a sitting fee of \$XXX per meeting attended].

The Chairperson of the Audit Panel shall be paid [an annual fee of \$XXX][a sitting fee of \$XXX per meeting attended].

### Review of Charter

The Council will review this charter at least annually and submit its recommended charter to the Council for approval.

Approved by Council

[Signature]

Mayor

Date

# Appendix D – Activities an audit panel may undertake as part of its work plan

The following is a list of activities that an audit panel may undertake as part of its work plan.

## Financial management

- Determine whether the annual financial statements of the council accurately represent the state of affairs of the council.
- Review any significant financial reporting issues and judgements that the financial statements may contain.
- Review the veracity and quality of financial and non-financial information provided by the council in its financial statements, internal and external reports – for example, actual and potential material audit adjustments, financial report disclosures.
- Review whether the council has followed appropriate accounting standards (eg Australian Accounting Standards) and made appropriate estimates and judgements, including considering the views of the Tasmanian Audit Office (TAO).
- Review the adequacy of the council's financial governance, systems and processes;
- Review the consistency and adequacy of the council's accounting policies and practices.
- Review the methods used to account for significant or unusual transactions.
- Review audit programs and audit reports provided by the council's finance department.
- Review the assumptions and bases upon which the council's budgeting and forecasting are determined.

## Annual audit and reporting

- Monitor and critique management's response to the TAO's findings and recommendations.
- Report to the council on action taken regarding issues arising from TAO audit reports and practice guides.
- Assess whether a comprehensive process has been established for the purposes of legislative disclosure reporting requirements.
- Review and comment on the processes the council has in place to ensure information included in the council's annual report is consistent with the signed financial statements.

- Ensure the council has appropriate quality assurance processes in place to ensure that documents and reports (whether required under legislation or otherwise) are accurate and clear.

## Long-term planning

- Determine whether and how the strategic plan, annual plan, long-term financial management plan and long-term strategic asset management plans of the council are integrated and review the processes by which, and assumptions under which, those plans were prepared.
- Review the performance of the council against the identified benchmarks in the long-term plans, policies and strategies.
- Review the veracity and appropriateness of information contained within the council's long-term plans, policies and strategies.

## Internal controls and risk management

- Ensure the council has in place an effective risk management framework that encompasses:
  - policies outlining the relative roles and responsibilities of the council, audit panel and council management;
  - risk registers and assessments; and
  - a plan for ongoing monitoring of the council's risk profile and its relationship to its risk management framework.
- Determine whether the council has internal processes for determining and managing material operating risks in the following areas:
  - important accounting judgements or estimates that prove to be incorrect;
  - litigation, claims and complaints against the council;
  - fraud, theft and other illegal and unethical behaviour; and
  - significant business risks, such as workplace health and safety, information security and reputation, and how these are managed by the council.
- Determine whether the council has:
  - a current and effective business continuity or sustainability plan;
  - adequate processes to manage insurable risks, including the insurance cover currently in place for the council;
  - appropriate policies and procedures for the management and exercise of delegations; and
  - sound and effective approaches that are followed in developing strategic risk management plans for major projects or undertakings.

- Review summary reports from the council's management on all suspect and actual frauds, thefts and material breaches of legislation, ensuring they have been reported to the council and the relevant authorities.
- Assess the council's procurement framework with a focus on the probity and transparency of policies and procedures, and compliance with these.

## Legislative compliance and ethics

- Monitor compliance with legislation such as the:
  - *Local Government Act 1993;*
  - *Land Use Planning and Approvals Act 1993;*
  - *Work Health and Safety Act 2012;*
  - *Dog Control Act 2000;*
  - *Food Act 2003;*
  - *Environmental Management and Pollution Control Act 1994;*
  - *Water and Sewerage Industry Act 2008;*
  - *Building Act 2000;*
  - *Land Acquisition Act 1993;*
  - *Local Government (Building and Miscellaneous Provisions) Act 1993;*
  - *Local Government (Highways) Act 1982; and*
  - *Anti-Discrimination Act 1998.*
- Ensure the council's policies and procedures are appropriately designed and implemented, and that effective systems are in place to monitor compliance with those policies and procedures.
- Determine whether the council has an effective internal audit function and undertake an annual assessment of the performance of external and internal auditors.
- Undertake an annual self-assessment of the Audit Panel's own work plan and performance.





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