

## Extract from Dorset Council Meeting Agenda 21 July 2014

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### 113/14 Audit Panels

Reporting Officer: Corporate Services Manager, Guy Jetson  
Ref 14/6548

#### Purpose

The purpose of this agenda item is to consider the establishment of an Audit Panel for Dorset Council.

#### Background

On 10 February 2014 Local Government (Audit Panels) Order 2014 came into effect which specified requirements for the establishment of an audit panel for councils under Section 85 of the Local Government Act 1993.

This matter was raised with Council in the April workshop and it was proposed that the implementation of an audit panel be deferred until after the October Council Elections. Since that workshop the Mayor and General Manager have had discussions about the compliance costs of having an audit panel and if it will add any benefit to the organisation and more importantly the community for which Council exists.

The General Manager therefore posed the question to Councillors whether Council chooses to comply with the legislation or advises the Minister for Local Government that it will not be establishing an audit panel on the basis that it does not see commensurate value in the audit panels to justify the associated cost to the community.

The Corporate Services Manager is currently working with other regional Council's in developing a draft Audit Panel Charter and potentially seeking a common Audit Panel Chair for participating Council's in the region.

#### Planning, Environment & Statutory Requirements

*Section 85 of the Local Government Act 1993.*

#### 85A. Functions of audit panels

(1) An audit panel established under [section 85](#) is to review the council's performance in relation to –

- (a) the council's financial system, financial governance arrangements and financial management; and
- (b) all plans of the council under Part 7; and
- (c) all policies, systems and controls the council has in place to safeguard its long-term financial position; and
- (d) any other matters specified in an order under section 85B as matters that an audit panel is to consider in such a review.

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The Local Government (Audit Panels) Order 2014 detail the requirements for establishing an audit panel, development of a charter, annual work plan and meeting requirements.

### **Risk Management**

A risk of not establishing and Audit Panel is non-compliance with Section 85 of the Local Government Act 1993 *and* Local Government (Audit Panels) Order 2014. There are however no proscribed penalties for non-compliance with the Act.

Council addresses the risk of not establishing an audit panel by ensuring that the areas listed as functions of the audit panel are regularly monitored by Council through either the Council meeting or workshop processes. In addition, Council has allocated funding to ensure it has a robust internal audit process that is reported to Council through the quarterly Annual Plan review process.

### **Financial & Asset Management Implications**

The cost of an Audit Panel is estimated to be between \$10,000 to \$30,000 per annum taking into consideration the cost of an independent chair and officer time in administering the panel.

### **Community Considerations**

N/A

### **Officer's Comments – General Manager**

Internal Audit functions are commonly established in large companies, typically large publicly listed companies and are typically used to audit the organisations systems and processes. However, to have an internal audit function in organisations the size of less than \$50 million turnover would be rare in the private sector due to the associated costs. In this context, the question must be asked as to whether the associated costs and diversion of human resources can be justified for the majority of Tasmanian Councils given the size of the organisations.

It is not disputed that if resourced appropriately, an audit panel can add value to Councillors in providing independent advice on the health of the organisation. However, the critical issues are the extent of the resourcing of the panel to ensure its independence and are there other more cost effective ways of achieving the general intent of the legislation. In this context it should be noted that if an audit panel is resourced simply to achieve compliance with the requirements of the Act, there will be little if any value to the organisation and therefore community.

In terms of alternatives to mandatory audit panels, after carefully critiquing the guidelines supplied by the Local Government Division, it is difficult to see what additional value an audit panel would provide given there are already appropriate controls in place to ensure Councillors are fully informed of all of Council's critical "Plans", including risk management strategies. These controls are clearly detailed Dorset Council Meeting Agenda

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in Council's Annual Plan and Strategic Plan and include periodical reporting requirements to Council both in Council workshops and Council Meetings.

In reaching a final position on this issue a fundamental question which should be asked by any organisation is one of cost versus benefit. This question should be considered in the context of the financial challenges Local Government faces with the recent impact of the freezing of the indexation of Financial Assistance Grants (FAGS) and the ongoing impacts of cost shifting and increased regulatory obligations being thrust upon Local Government and therefore community by State Agencies.

In conclusion, whilst the principles and intent of the Audit Panel guidelines developed by the Local Government Division are fully supported, the value of the mandatory requirement of an Audit Panel is challenged. In addition, as explained above and demonstrated in the July Council workshop, Council already has in place a number of controls which deliver the same outcomes as the audit Panel Order without the associated cost to community.

### **Recommendation**

**That Council advise the Minister for Local Government and the Auditor General of its intention not to establish an Audit Panel under Section 85 of the *Local Government Act 1993*.**

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### **Decision**

Crs Stein/Jennings

That Council advise the Minister for Local Government and the Auditor General of its intention not to establish an Audit Panel under Section 85 of the *Local Government Act 1993*.