



Shire of Dowerin

Minutes of Audit Committee Meeting

17 February 2017 at 1.00pm

Shire of Dowerin Council Chambers

COMMITTEE MEMBERS	REPRESENTING
Cr D.E. Metcalf	Shire of Dowerin
Cr A.J. Metcalf	Shire of Dowerin
Cr R.I Trepp	Shire of Dowerin
Mr Jason Whiteaker	External Advisor to the Audit Committee
OBSERVER	REPRESENTING
Andrea Selvey – CEO	Shire of Dowerin
Corinne Morrell – Governance Coordinator/Minutes	Shire of Dowerin

COMMITTEE TERMS OF REFERENCE *(adopted by Council on 20 December 2016)*

Objectives of the Audit Committee:

The primary objective of the Audit Committee is to accept responsibility for the annual external audit and liaise with the Shire's auditor so that Council can be satisfied with the performance of the Shire in managing its financial affairs. Reports from the Audit Committee will assist Council in discharging its legislative responsibilities

The Audit Committee is to facilitate:

- the enhancement of the credibility and objectivity of internal and external financial reporting;
- effective management of financial and other risks and the protection of Council assets;
- compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance;
- the coordination of the internal audit function with the external audit; and
- the provision of an effective means of communication between the external auditor, internal auditor, the CEO and Council.

Powers of the Audit Committee:

The Audit Committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference.

The Audit Committee is a formally appointed committee of Council and is responsible to that body. The committee does not have executive powers or authority to implement actions and does not have any delegated financial responsibility.

Membership:

The Audit Committee will consist of four members, being three elected and one external person. Membership will be reviewed biennially immediately following Local Government elections unless, by a decision of Council, an interim appointment is required. All members shall have full voting rights.

Appointment of external persons shall be made by Council by way of an invitation to a suitably qualified and experienced Local Government CEO or Corporate Services Executive and be for a maximum of two years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives. Reimbursement of approved expenses will be paid to the external person who is a member of the committee.

The CEO and Finance Manager will attend meetings in an advisory role only as needed which will include being available at any time the Committee meets.

Secretarial support will be provided to the Committee by the Governance Coordinator or Officer.

Meetings:

The Audit Committee shall meet at least quarterly.

Reporting:

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

Duties and Responsibilities:

The duties and responsibilities of the Audit Committee will be to:

- a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
- b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the Shire's auditor;
- c) Develop and recommend to Council a list of those matters to be audited and the scope of the audit to be undertaken;
- d) Recommend to Council the person or persons to be appointed as auditor;
- e) Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include:

- the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid to the auditor; and
 - the method to be used by the local government to communicate with, and supply information to, the auditor;
- f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;
- g) Liaise with the CEO to ensure that the local government does everything in its power to –
- assist the auditor to conduct the audit and carry out his or her other duties under the Local Government Act 1995; and
 - ensure that audits are conducted successfully and expeditiously;
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters to –
- determine if any matters raised require action to be taken by the local government; and
 - ensure that appropriate action is taken in respect of those matters;
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time;
- j) Review the scope of the audit plan and program and its effectiveness;
- k) Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO;
- l) Review the level of resources allocated to internal audit and the scope of its authority;
- m) Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;
- n) Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
- o) Review the local government's draft annual financial report, focusing on –
- accounting policies and practices;
 - changes to accounting policies and practices;
 - the process used in making significant accounting estimates;
 - significant adjustments to the financial report (if any) arising from the audit process;
 - compliance with accounting standards and other reporting requirements; and
 - significant variances from prior years;
- p) Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;
- q) Review the annual Compliance Audit Return and report to Council the results of that review, and
- r) Consider the CEO's biennial reviews of the appropriateness and effectiveness of the Shire's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the Council the results of those reviews.

MINUTES (Unconfirmed) OF THE AUDIT COMMITTEE MEETING HELD ON 17 FEBRUARY 2017 at 1.00pm at the Shire of Dowerin Council Chambers, Cottrell Street, Dowerin

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1. DECLARATION OF OPENING

Chairperson, Cr D. Metcalf opened the meeting at 1:10pm.

2. ATTENDANCE

Cr D.E Metcalf - Chairperson

Cr R.I. Trepp

Cr A.J. Metcalf

Mr J. Whiteaker

A. Selvey - Chief Executive Officer

C. Morrell – Governance Coordinator/Minutes

3. APOLOGIES

Nil

4. APPLICATIONS FOR LEAVE OF ABSENCE

Nil

4. DECLARATION OF INTEREST

Nil

5. CONFIRMATION OF MINUTES

OFFICER'S RECOMMENDATION 5.1

Moved: Mr J. Whiteaker

Seconded: Cr D.E. Mecalf

Carried: 4/0

That the minutes of the meeting of the Shire of Dowerin Audit Committee held on 12 December 2017 be confirmed as a true and correct record of that meeting.

6. BUSINESS ARISING FROM THE MINUTES

6.1 **Query:** Bank Reconciliation anomalies found as part of the Audit process be presented at the next meeting of Audit Committee.

Update: The following points in relation this request were presented via written correspondence to the President dated 13 December from Leanne Oliver. A copy of the letter was tabled.

a) Daily banking not being checked or reconciled to the banking/receipting report thus resulting in over or under banking.

b) Dishonoured cheques were being missed.

c) EFT's were being processed in Synergy but not being paid, resulting in duplicate payments in the system.

d) Bpay payments were being duplicated and not picked up.

e) Interest not being correctly allocated to the reserve.

f) The manual (small) cheques not being correctly entered into Synergy.

g) Errors due to transactions not being allocated to the correct posting period.

- h) Bank fees not being entered.
- i) Errors around the way the BAS payments were being processed.

Discussion: The Audit Committee was concerned that these issues were not raised by the Auditor until requested by the Audit Committee.

Query: Cr Trepp requested further information on ratios and notation in the Financial Statements.

Update: Under review.

Query: Percentage of Rates and Annual Charges – overdue status is due to Rates being raised at beginning of year and is based on the percentage of outstanding rates still due to Council at year end. Recommend that ‘outstanding’ wording be included for increased clarification.

Update: Completed.

Query: Ratios concern in relation to thresholds for Current Ratio. Reserve transfers were not undertaken and in future it is recommended that any budgeted transfers should be made regardless of estimated financial position. Include in priorities for LTFP and Asset Management Plans.

Update: LTFP being progressed and these items included as priorities.

Query: Cash and Cash Equivalents in deficit due to overdrawing for creditor payments.

Update: Closer monitoring of balances in Municipal Account by Finance Manager prior to payments being made.

Query: Asset Consumption Ratio – has increased significantly in last two years. CEO to investigate and review implications.

Update: To be reviewed as part of LTFP and Asset Management Planning.

Query: Spare Current Provision 1 – Leanne to provide reconciliation of figures to Audit Committee.

Update: Advised that this relates to the current portion of the Long Service Leave Provision via written correspondence to the President dated 13 December from Leanne Oliver.

Query: Removal of reference of ex-CEO by name in note 2A.

Update: Completed

Query: Other Payables (Pg. 46) –Leanne to provide break down of amounts.

Update: Following advice via written correspondence to the President dated 13 December from Leanne Oliver.

Other Creditors (Accrued Audit Fees)	10,500
Creditors - Social Club Funds	2,740
Creditors – BSL Payable	1,318
Creditors – Due to Trust	100
Creditors – BCTIF	1,996
GST Likely Over claim	124,841
Total	141,495

Further Query: How was the figure of \$124,841 for the GST Likely Over Claim arrived at? Is it a contingent or quantified liability?

AUDITOR RECOMMENDATIONS ON FINANCIAL TRACING

- **Recommendation:** That the level of control for purchasing to be undertaken by Management at an internal procedural level.
Update: Synergy Purchasing Module being introduced in March will add to levels of control.
- **Recommendation:** Segregation of duties – addition of CEO as fourth signatory and reviewer.
Update: CEO has been added as signatory.
- **Recommendation:** Cheque paperwork to be improved and cover sheet developed.
Update: Under review
- **Recommendation:** Purchase Orders – need to be signed properly, quotes and relevant document to be included, estimated amount. Co-member of staff to sign off on small amounts as well as large. Management to review through “spot checks” on regular basis.
Update: Synergy Purchasing Module being introduced in March will address these issues.

RECOMMENDATIONS FROM AUDIT COMMITTEE

Recommendation: Consider updating Council’s Purchasing Policy in relation to thresholds, quotation requirements and Tender threshold in accordance with updated Department legislation.

Update: WALGA currently reviewing all Council Policies including Purchasing Policy.

Recommendation: Concern relating to the small cheque book (MUNI and TRUST) use and recommendation that the use of small cheques be phased out.

Update: Under review.

7. PRESENTATIONS

Nil

8. REPORTS

The President (as Presiding Member) moved Item 8.3 in Agenda forward.

8.3 CONFIDENTIAL ITEM – UPDATE ON LEGAL ACTION AGAINST SHIRE AUDITORS AND CONSIDERATION OF THE 2016/17 AUDIT

Date: 13 February 2017
Applicant: The Shire of Dowerin
Location: N/A
File Ref:
Disclosure of Interest: Nil
Author: Andrea Selvey, CEO

Summary

This item presents an update on actions against the Auditors and seeks Committee advice on moving forward with the 2016/17 Audit.

Background

Council has prioritised recovery of Shire funds lost as a result of the former CEO's fraudulent activities and directed to CEO to review and provide options for Council to consider.

Comment

The most recent actions have been as follows:

1. On 23 November 2016, an Affidavit and Certified Copy of the Compensation Order was lodged with the District court. The next step for Council to consider is likely to be to lodge an application for a means inquiry with the District Court. Proposals received suggest an estimated cost of \$1600 to progress this action.
2. Neil Douglas, Senior Partner at McLeods Barristers and Solicitors issued a letter of claim on behalf of the Shire to Byfields in which Byfields was asked to respond by 30 November 2016. Byfields had not responded by that date, nor has there been any response since that date. Mr Douglas advised that he does not practice in this area of the law and that should Council wish to proceed, it would be advisable to secure the services of a specialist in professional negligence.
3. At Council's request, the CEO contacted the WA Law Society to seek advice regarding legal firms who specialise in professional negligence claims. The firms recommended were Perth-based firms namely KD Legal, Shine Lawyers and Civic Legal. In addition, the national firm, Norton Rose Fulbright, was approached to provide a proposal given that the firm has background knowledge of the case from involvement with the CCC Public Hearings and as the firm also specialises in this area of the law. All four firms were invited to provide a proposal. Shine Lawyers declined the invitation. Proposals from Civic Legal, KD Legal and Norton Rose Fulbright were provided to for Council consideration.
4. At their meeting on 20 December, Council resolved to allocate \$20,000 in the budget to pursue legal action against Byfields and to lodge a means enquiry for compensation from the former CEO, noting that any potential further expenditure must be authorised by Council. Norton Rose Fulbright has been engaged to review all pertinent documentation (contract

with Byfields, previous audit reports, CCC public hearing transcripts) and to prepare a Writ and a Statement of Claim. This is currently progressing. Once the Statement of Claim has been finalised, they will provide their professional view regarding the strength of the case and their recommendation regarding the cost-benefit of pursuit of further legal action. At this point Council will have the option to withdraw or progress by lodging the Writ.

Norton Rose Fulbright was also asked advice in terms of maintaining the contract with Byfields for the 2016/17 Audit and their advice was for the Shire to wait until Byfields receives the Writ and Statement of Claim and await their reaction. They advised against the Shire seeking to sever the contract at this stage.

Consultation

WALGA and LGIS have provided ongoing advice regarding possible actions to recover stolen funds.

Financial Implications

Council has allocated \$20,000 to progress this matter.

Policy Implications

Nil

Statutory Implications

Nil

Strategic Implications

Nil

OFFICER RECOMMENDATION – ITEM 8.3

THAT THE AUDIT COMMITTEE REVIEWS PROGRESS OF FINANCIAL RECOVERY VIA LEGAL ACTION AGAINST THE AUDITORS AND NOTES THE ADVICE FROM NORTON ROSE FULBRIGHT THAT THE SHIRE SHOULD WAIT FOR BYFIELDS TO CONSIDER WHETHER OR NOT TO CONTINUE WITH THEIR CONTRACT FOR THE 2016/17 AUDIT.

COMMITTEE RECOMMENDATION – ITEM 8.3

Moved: Mr J. Whiteaker

Seconded: Cr A.J. Metcalf

Carried: 4/0

THAT THE AUDIT COMMITTEE NOTED THE UPDATE PROVIDED BY THE CEO AND ACKNOWLEDGED THAT ONGOING DISCUSSIONS WOULD CONTINUE WITH THE AUDITOR REGARDING THE POTENTIAL TERMINATION OF THE CONTRACT WITH THE CURRENT AUDITOR (BYFIELDS) AND THAT THE CEO WOULD PROVIDE A REPORT TO THE FEBRUARY ORDINARY MEETING OF COUNCIL

8.1 COMPLIANCE AUDIT RETURN (CAR)

Date: 12 February 2017
File Ref:
Disclosure of Interest: Nil
Author: Andrea Selvey, CEO
Attachments: 1.Certified copy of the Compliance Audit Return

Summary

The Compliance Audit Return (CAR) for the 2016 calendar year is required to be completed and submitted to the Council prior to being submitted to the Department of Local Government and Communities (DLGC) by the deadline of 31 March 2017. It is also a requirement that the Shire's Audit Committee reviews the CAR and reports the results to Council prior to the CAR's adoption by Council and submission to DLGC.

Background

The CAR is a process for local governments to self-audit their compliance. The template/questionnaire is developed by the DLGC and covers. The audit covers the following areas:

- Commercial Enterprises
- Delegations of Power / Duty
- Disclosures of Interest
- Disposal of Property
- Elections
- Finance
- Local Government Employees
- Official Conduct
- Tenders for Providing Goods and Services

Comment

In January 2016 the Shire of Dowerin CAR was completed by the then Acting CEO, Mr Gary Martin. As a local government consultant, part of Mr Martin's normal service provision is to conduct independent CAR reviews on behalf of various local governments and therefore Mr Martin was able to bring his 20 years' experience with such reviews to the Shire of Dowerin's CAR. In 2016 Mr Martin reported that "without doubt the standard of compliance found in this review was most likely to be the worst, or one of the worst, I have experienced." Mr Martin proceeded to state that the 2015 CAR found considerable non-compliance and many key registers and records non-existent, poorly maintained and generally incomplete or unsatisfactory. Given the poor standard of compliance reported in 2016, it was timely that Mr Martin was once again Acting CEO in January 2017 and was able to complete a significant proportion of the CAR as part of his Acting role. This provided some continuity to the CAR and a level of independence in the review.

While there have been improvements in compliance, it is necessary to report to Council that there are areas of compliance that still require addressing. These include :

1. The agreement between the Shire and Auditor did not include the objectives of the audit or method to be used for communication;
2. The annual return for one staff member was not completed correctly;
3. Disclosures of interest, the extent of participation and how these are recorded in the minutes need review;
4. Delegations require finalising urgently.

It should be noted that WALGA has been reviewing the Shire's draft delegations register over the past two months and have stated they would have their revisions to us within the next week or two. The compliance issues have been noted and will be addressed.

Consultation

Mr Gary Martin, former Acting CEO, Shire of Dowerin

Shire staff

Financial Implications

There are no direct financial implications arising from the review itself, however compliance does require significant resourcing. This has been considered by Council in the 2016/17 budget with a \$50,000 budget for compliance.

Policy Implications

Nil

Statutory Implications

The questions in the CAR relate to Reg 13 of the Local Government (Audit) Regulations 1996.

Strategic Implications

Nil

Voting Requirements

Simple majority

OFFICER RECOMMENDATION – ITEM 8.1

THAT THE AUDIT COMMITTEE RESOLVES TO RECOMMEND THAT COUNCIL:

- 1. ADOPTS THE SHIRE OF DOWERIN 2016 COMPLIANCE AUDIT RETURN AND AUTHORISES THE CEO TO LODGE THE RETURN WITH THE DEPARTMENT OF LOCAL GOVERNMENT AND COMMUNITIES;***
- 2. NOTES THE AREAS OF CONCERN AND INSTRUCTS THE CEO TO PROGRESS IMPROVEMENTS TO COMPLIANCE WITHIN CURRENT BUDGET/RESOURCE ALLOCATIONS.***

COMMITTEE RECOMMENDATION – ITEM 8.1

Moved: Cr A.J Metcalf

Seconded: Cr R.I. Trepp

Carried: 4/0

THAT THE AUDIT COMMITTEE RESOLVES TO RECOMMEND THAT COUNCIL:

- 1. ADOPTS THE SHIRE OF DOWERIN 2016 COMPLIANCE AUDIT RETURN AND AUTHORISES THE CEO TO LODGE THE RETURN WITH THE DEPARTMENT OF LOCAL GOVERNMENT AND COMMUNITIES;***
- 2. NOTES THE AREAS OF CONCERN AND INSTRUCTS THE CEO TO PROGRESS IMPROVEMENTS TO COMPLIANCE WITHIN CURRENT BUDGET/RESOURCE ALLOCATIONS.***

8.2 COMPLIANCE CALENDAR

Date:	12 February 2017
Applicant:	The Shire of Dowerin
Location:	N/A
File Ref:	
Disclosure of Interest:	Nil
Author:	Andrea Selvey, CEO
Attachment:	2. Compliance Calendar

Summary

This item presents an update on the Shire of Dowerin Compliance Calendar as requested by the Audit Committee at the Audit Committee meeting held on 12 December 2016.

Background

In March 2016, Mr Ron Back provided Council with a report from his Reg 5 review. The report provided recommendations to improve governance and compliance within the Shire. One of the high priority recommendations was for the Audit Committee to establish a timetable for the CEO's reviews on compliance, risk and internal controls. To address this recommendation, a Compliance Calendar was developed by staff and considered by the Audit Committee at its meeting on 12 December 2016. The Audit Committee requested an update on this matter at their next meeting.

Comment

The main items of compliance for January and February were as follows:

- Compliance Audit Return – see item 7.1;
- Gift Register – email reminder sent to Councillors and relevant staff but no gifts registered;
- Annual Electors Meeting – held 7 February and report prepared for 28 February Council meeting;
- Delegation Review / Authorised Officers Listing review – draft Delegations Register and Authorised Officers Listing being reviewed by WALGA with a plan to workshop the draft with Council at the 28 February Council workshop;
- Advertise Council meetings for next 12 months – completed;
- Ward Boundary Review – completed and submitted to the Local Government Advisory Board;
- LEMC meeting – held on Friday 3 February;
- CEO and Staff performance review – staff reviews completed; CEO review due in June.

Consultation

Nil

Financial Implications

Council made a provision of \$50,000 for compliance in the 2016/17 Budget. Many of the compliance items listed in the attached calendar are being progressed in-house in order to limit the financial impact on the budget ; therefore it is anticipated that the cost will be managed within the 2016/17 budget allocation.

Policy Implications

Nil

Statutory Implications

All the compliance requirements have a statutory implication under the Local Government Act, various regulations under the Act or other pieces of legislation such as the Bush Fires Act, Emergency Management Act and the Health Act. The legislative imperative for each action is noted in the attached calendar.

Strategic Implications

Strategic Community Plan - Theme 4 – Local Government Leadership

OFFICER’S RECOMMENDATION – ITEM 8.2

THAT THE AUDIT COMMITTEE NOTES THE UPDATE ON THE COMPLIANCE CALENDAR.

COMMITTEE RECOMMENDATION – ITEM 8.2

Moved: Mr J. Whiteaker Seconded: Cr R.I Trepp Carried: 4/0

THAT THE AUDIT COMMITTEE NOTES THE UPDATE ON THE COMPLIANCE CALENDAR.

9. QUESTIONS FROM MEMBERS

Nil

10. URGENT BUSINESS

Nil

11. DATE OF NEXT MEETING

Date: 17 March 2017 at 3pm

Items for next meeting: Audit 2016/17

12. CLOSURE OF MEETING

The presiding member closed the meeting at 2.05 pm.

These minutes were confirmed true and accurate at the Audit Committee Meeting held on Tuesday 17th February 2017.

.....
D.E. Metcalf

PRESIDENT

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Date