



# Shire of Dowerin

## Audit Committee Meeting Minutes

23 June 2017 at 9am

Shire of Dowerin Council Chambers

<b>COMMITTEE MEMBERS</b>	<b>REPRESENTING</b>
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
<b>OBSERVER</b>	<b>REPRESENTING</b>
Andrea Selvey – CEO	Shire of Dowerin
Ina Edwardson – Finance Manager (Acting)	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.

**SHIRE OF DOWERIN**

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 23 JUNE 2017 at 9am at the Shire of Dowerin Council Chambers, Cottrell Street, Dowerin**

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## 1. DECLARATION OF OPENING

In absence of the Chair, the CEO opened the meeting at 9.00am

## 2. ELECTION OF CHAIR FOR 23 JUNE 2017 MEETING OF THE AUDIT COMMITTEE

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### COMMITTEE RECOMMENDATION – ITEM 2.1

Moved: Cr A Metcalf

Seconded: J Whiteaker

Carried: 3/0

In the absence of the Chair of the Audit Committee, that Cr R Trepp be appointed Chair for the 23 June 2017 meeting of the Audit Committee.

## 3. ATTENDANCE

### Members:

Cr A.J. Metcalf  
Cr R.I. Trepp  
Mr J. Whiteaker

### Staff:

A. Selvey - Chief Executive Officer  
I. Edwardson – Finance and Corporate Services Manager  
C. Morrell – Minutes

## 4. APOLOGIES

Cr D.E. Metcalf - Chairperson

## 5. APPLICATIONS FOR LEAVE OF ABSENCE

Nil

## 6. DECLARATION OF INTEREST

IMPORTANT: Parts of Division 6 Subdivision 1 of the Local Government Act 1995 requires Council members and employees to disclose any direct or indirect financial interest or general interest in any matter listed in this agenda.

The Act also requires the nature of the interest to be disclosed in writing before the meeting or immediately before the matter being discussed.

NB A Council member who makes a disclosure must not preside or participate in, or be present during, any discussion or decision making procedure relating to the disclosed matter unless the procedures set out in Sections 5.68 or 5.69 of the Act have been complied with.

Nil

## 7. CONFIRMATION OF MINUTES

### 7.1 OFFICER'S RECOMMENDATION

Moved: Cr R Trepp

Seconded: Cr A Metcalf

Carried: 3/0

That the minutes of the meeting of the Shire of Dowerin Audit Committee held on 17 March 2017 be confirmed as a true and correct record of that meeting.

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### COMMITTEE RECOMMENDATION – ITEM 7.1

That the minutes of the meeting of the Shire of Dowerin Audit Committee held on 17 March 2017 be confirmed as a true and correct record of that meeting.

## 7.2 BUSINESS ARISING FROM THE MINUTES

The Audit Committee raised various queries at previous Audit Committee meetings. The following provides an update on status of actions:

**Query:** Bank Reconciliation anomalies found as part of the Audit process 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.

**Update:** The Synergy Soft Bank Reconciliation Module has gone live after two months of issues with the software. Finance Officers have been provided with training in this process which will be part of the daily process.

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

**Update:** Under review.

**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:** Other Payables (Pg. 46) – The previous Shire Auditor (Leanne Oliver) provided the following advice via written correspondence to the President dated 13 December.

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
<b>Total</b>	<b>141,495</b>

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

**Response:** The CEO queried the Auditor Leanne Oliver by email. Ms Oliver did not respond however, Megan Shirt, who has been providing financial management support to the Shire responded as follows:

*“The forensic audit identified the fraudulent activities GST components, where GST was claimed on fraudulent invoices, and also where fraudulent takings were charged to the GST account and then claimed in back from the ATO with the BAS. After the arrest, some of the transactions relating to 15-16 were corrected prior to the Bas being lodged. I believe it is a quantified liability. This is the reason the BAS statements for the past few years require review.”*

**Action:** The CEO to contact the ATO to advise them of the situation and seek their advice regarding finalising the matter of the ATO liability as soon as possible.

**Update:** The CEO and Megan Shirt contacted the ATO. The advice from the ATO is that the impacted BAS statements will require a revision. This will require resourcing and will be carried out prior to the end of 2017.

**Recommendation:** That the level of control for purchasing to be undertaken by Management at an internal procedural level.

**Update:** Synergy Purchasing Module has been implemented and has enhanced purchasing controls significantly.

**Recommendation:** Cheque paperwork to be improved and cover sheet developed.

**Update:** Completed.

**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 has been implemented and has addressed these issues.

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

**Update:** Updated Purchasing has been approved by Council.

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

**Update:** This is no longer in use and spare cheques have been sent to the bank to be destroyed.

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#### OFFICER’S RECOMMENDATION – ITEM 7.2

Moved: Cr R Trepp

Seconded: Cr J Whiteaker

Carried: 3/0

**THAT THE SHIRE OF DOWERIN AUDIT COMMITTEE NOTES THE UPDATES PROVIDED.**

**COMMITTEE RECOMMENDATION – ITEM 7.2**

**THAT THE SHIRE OF DOWERIN AUDIT COMMITTEE NOTES THE UPDATES PROVIDED.**

**8. PRESENTATIONS**

Nil

**9. REPORTS**

**9.1 INTERIM MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2017**

Date: 10 June 2017  
File Ref:  
Disclosure of Interest: Nil  
Author: Andrea Selvey, CEO  
Attachments: 1. INTERIM MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2017

Summary

This item presents the Interim Management Report for the Audit Committee's review.

Background

Australian Auditing Standards requires an Auditor to obtain an understanding of the internal control structure and accounting system in respect to audit planning, risk assessment, assessment of fraud and assessment of the control environment. As such, the Shire Auditor visited the Shire of Dowerin in May 2017 to carry out this interim audit.

Comment

The interim audit included a review of Shire's compliance with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.

The Terms of Reference for the Audit Committee includes the following:

*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;*

The Interim Management Report, which includes Management Responses to the issues raised by the Auditor, is attached for the Audit Committee's review and discussion.

Consultation

Finance Team



Financial Implications

Nil

Policy Implications

Nil

Statutory Implications

The Local Government (Audit) Regulations 1996 provides the legislative framework for the conduct of Audits in Local Government. This process is compliant with those requirements.

Strategic Implications

Nil

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**OFFICER RECOMMENDATION – ITEM 9.1**

Moved: Cr A Metcalf

Seconded: Cr R Trepp

Carried: 3/0

***THAT THE AUDIT COMMITTEE RESOLVES TO NOTE THE INTERIM MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2017.***

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**COMMITTEE RECOMMENDATION – ITEM 9.1**

***THAT THE AUDIT COMMITTEE RESOLVES TO NOTE THE INTERIM MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2017.***

## **9. QUESTIONS FROM MEMBERS**

## **10. URGENT BUSINESS**

### **10.1 LATE ITEM**

#### **10.1 RELATED PARTY DISCLOSURES**

Date: 19 June 2017

File Ref:

Disclosure of Interest: Nil

Author: Andrea Selvey, CEO

Attachments: 1. AASB RELATED PARTY DISCLOSURES IMPLEMENTATION GUIDE

#### Summary

This late item brings the requirements for related party disclosures now required under the Accounting Standards before the Audit Committee for review before presenting to Council.

#### Background

The Department of Local Government has provided Councils with an Implementation Guide for changes required to Council's Annual Financial reporting via Accounting Standard AASB 124 –

Related Party Disclosures. The objective is to ensure that local government financial statements contain the disclosures necessary to draw attention to the possibility that its financial position may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

This will require Councillors and Key Management personnel to disclose, via a return, information regarding related parties.

This is a requirement specified by an Australian Accounting Standard and is in addition to and different from the Disclosure of Interest and Gift and Travel Disclosure requirements that are imposed under the *Local Government Act 1995* and associated Regulations.

#### Comment

The information provided is for the Audit Committee/Council information. Staff will be working with the Auditors to ensure the appropriate information is gathered from Councillors and Key management personnel prior to the finalisation of the Annual Financial report.

#### Financial Implications

Nil

#### Risk Implications

There is a risk that this new requirement will not be understood or complied with. Staff will work with the Auditor to ensure Councillors and impacted staff are provided with good quality and timely information to ensure compliance is achieved.

Failure to comply carries with this requirement carries the risk of receiving a qualified audit. Councillors and relevant staff will be made aware of the importance of compliance and assisted as required.

#### Consultation

Nil

#### Policy Implications

Nil

#### Statutory Implications

This disclosure is required under Accounting Standard AASB 124.

#### Strategic Implications

Nil

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#### OFFICER RECOMMENDATION – ITEM 10.1

Moved: Cr R Trepp

Seconded: Cr A Metcalf

Carried: 3/0

**THAT THE AUDIT COMMITTEE NOTES REQUIREMENT FOR RELATED PARTY DISCLOSURES**

**COMMITTEE RECOMMENDATION – ITEM 10.1**

***THAT THE AUDIT COMMITTEE NOTES REQUIREMENT FOR RELATED PARTY DISCLOSURES.***

**11. DATE OF NEXT MEETING**

Date: TBA – late October/early November 2017

Items for next meeting: Audited Financial Statements

**12. CLOSURE OF MEETING**

The presiding member closed the meeting at 10.00am.