



Shire of Dowerin

Audit Committee Meeting

Minutes

16 February 2018 at 9.00am

Shire of Dowerin Council Chambers

COMMITTEE MEMBERS	
Cr D.P. Hudson	Shire of Dowerin
Cr A.J. Metcalf	Shire of Dowerin
Cr B.A. Ward	Shire of Dowerin
Mr Jason Whiteaker	External Advisor to the Audit Committee
OBSERVERS	
Andrea Selvey – CEO	Shire of Dowerin
Susan Fitchat – Finance and Corporate Services Manager	Shire of Dowerin

COMMITTEE TERMS OF REFERENCE (adopted by Council on 24 October 2017)

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.

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SHIRE OF DOWERIN

AGENDA FOR THE AUDIT COMMITTEE MEETING TO BE HELD ON 16 February 2018 at 9.00am at the Shire of Dowerin Council Chambers, Cottrell Street, Dowerin

TABLE OF CONTENTS

Contents

COMMITTEE TERMS OF REFERENCE (adopted by Council on 24 October 2017)	2
1. DECLARATION OF OPENING.....	5
2. ATTENDANCE	5
3. APOLOGIES.....	5
4. APPLICATIONS FOR LEAVE OF ABSENCE	5
5. DECLARATION OF INTEREST.....	5
6. CONFIRMATION OF MINUTES.....	5
7. PRESENTATIONS.....	5
8. REPORTS.....	6
8.1 STANDING ITEM – BUSINESS ARISING FROM PREVIOUS MEETING/S.....	6
8.2 2017 COMPLIANCE AUDIT RETURN.....	8
8.3 INTERNAL CONTROLS	10
9. QUESTIONS FROM MEMBERS.....	12
10. URGENT BUSINESS	12
11. DATE OF NEXT MEETING.....	12
12. CLOSURE OF MEETING	12

1. DECLARATION OF OPENING

The Shire President/Chair, Cr D.P Hudson, opened the meeting at 9.00am

2. ATTENDANCE

Members:

Cr D.P Hudson
Cr A.J. Metcalf
Cr B.A. Ward
Mr J. Whiteaker

Observers:

Ms A. Selvey - Chief Executive Officer
Ms S. Fitchat – Finance and Corporate Services Manager

3. APOLOGIES

Nil

4. APPLICATIONS FOR LEAVE OF ABSENCE

Nil

5. 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

6. CONFIRMATION OF MINUTES

OFFICER RECOMMENDATION – ITEM 6.1

THAT THE MINUTES OF THE MEETING OF THE SHIRE OF DOWERIN AUDIT COMMITTEE HELD ON 20 NOVEMBER 2017 BE CONFIRMED AS A TRUE AND CORRECT RECORD OF THAT MEETING.

COMMITTEE RECOMMENDATION – ITEM 6.1

THAT THE MINUTES OF THE MEETING OF THE SHIRE OF DOWERIN AUDIT COMMITTEE HELD ON 20 NOVEMBER 2017 BE CONFIRMED AS A TRUE AND CORRECT RECORD OF THAT MEETING.

7. PRESENTATIONS

Nil

8. REPORTS

8.1 STANDING ITEM – BUSINESS ARISING FROM PREVIOUS MEETING/S

Date: 13 February 2018
File Ref:
Disclosure of Interest: Nil
Author: A. Selvey, Chief Executive Officer
Attachments: Nil

Summary

This report provides an update on business arising from previous Audit Committee meetings.

Background

At the Audit Committee Meeting on 20 November 2017, the Audit Committee made recommendations for improved governance and financial management and queried the following.

1. Recommendation to develop a policy for use of untied surpluses;
2. Query on status of ATO debt.

Comment

1. Recommendation to develop a policy for use of untied surpluses.
Response: A policy has been drafted and will be presented to the Finance Committee for review before being listed for discussion at a Councillor Workshop.
2. Query on status of ATO debt.
Response: The ATO has advised that due to the circumstances that the best way to handle overclaimed GST was to provide a voluntary disclosure as this may reduce any penalty that the ATO may impose, rather than restate the BAS for each period which would incur penalty.

The forensic audit identified fraudulent transactions where funds stolen were directly claimed back from the ATO via the BAS, by 'grossing up' expenditure. It also identifies fraudulently created invoices where GST was claimed and should not have been. These are the transactions to be voluntarily disclosed.

The matter of credit card transactions and GST has been considered. All transactions via the credit card were for purchases subject to GST and as such these will not be included in the Voluntary Disclosure.

The process for Voluntary Disclosure provides necessary information to the ATO regarding prior mistakes and gives the opportunity to bring tax affairs into order.

The voluntary disclosure must be 'in the approved form'. There isn't an actual form to fill in. 'In the approved form' means you must:

- give the ATO information required to work out what the error or correct position is;
- provide the information in the required manner, such as by letter, through an approved ATO electronic channel, or (in limited circumstances) by phone or face-to-face; and
- ensure that it contains a declaration signed by an authorised person.

This disclosure process enables the ATO to determine the shortfall amount.

3. Recommendation on Risk Matrix amendment.

Response: The matrix was amended as per the Audit Committee recommendation, presented to the December Ordinary Meeting of Council and adopted by Council as per the Audit Committee recommendation.

Consultation

ATO; and

Megan Shirt, Financial Management Consultant.

Financial Implications

Nil

Risk

The item ensures that recommendations arising from Audit Committee meetings are considered and actioned.

Policy Implications

Nil

Statutory Implications

Nil

Strategic Implications

Strategic Community Plan - Theme 4 – Local Government Leadership

OFFICER RECOMMENDATION – ITEM 8.1

THAT THE AUDIT COMMITTEE NOTES THE PROGRESS ON ACTIONS AND RECOMMENDATIONS ARISING FROM PREVIOUS MEETING/S.

COMMITTEE RECOMMENDATION – ITEM 8.1

Moved: J. Whiteaker

Seconded: Cr A Metcalf

Carried: 4/0

THAT THE AUDIT COMMITTEE NOTES THE PROGRESS ON ACTIONS AND RECOMMENDATIONS ARISING FROM PREVIOUS MEETING/S.

8.2 2017 COMPLIANCE AUDIT RETURN

Date:	13 February 2018
File Ref:	
Disclosure of Interest:	Nil
Author:	L. Valentine, Coordinator Governance and Organisational Development
Senior Officer:	A. Selvey, Chief Executive Officer
Attachments:	Compliance Audit Return 2017; and Compliance Audit Return 2017 – Report by Mr Gary Martin

Summary

The Compliance Audit Return (CAR) for the 2017 calendar year is required to be completed and submitted to the Council prior to being submitted to the Department of Local Government 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 the Department.

Background

The CAR is a process for local governments to self-audit their compliance. The template/questionnaire is developed by the Department and 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

The 2017 CAR was completed by the Chief Executive Officer, with support and input from the Coordinator of Governance and Organisational Development and Governance Officer. An external consultant, Gary Martin, was engaged to conduct an independent review of the CAR and professional development where required to improve compliance.

The report by Mr Martin on this most recent CAR (i.e. 2017) states that *"...the standard of compliance is excellent. It is apparent that the Shire has developed a strong culture of awareness of compliance requirements since the damning review in February 2016"*.

Out of the 94 areas audited one item of non-compliance was found giving an achievement rate of 98.9%. The item of non-compliance relates to item 14 of the Finance section which requires that the agreement between the Shire and its External Auditor includes the method by which the Shire is to communicate with and supply information to the External Auditor. This information was not included in the agreement. The agreement will be amended accordingly for the 2017/18 audit.

Consultation

Mr Gary Martin; and

Shire office team

Financial Implications

It is noted that compliance does require significant resourcing. This has been considered by Council in the 2017/18 budget with a \$30,000 budget for compliance in addition to significant on-going staff resources.

Risk

The CAR is self-auditing process that assists Councils to manage the risk of legislative non-compliance.

Policy Implications

Nil

Statutory Implications

The CAR relates to Reg 13 of the *Local Government (Audit) Regulations 1996*.

Strategic Implications

Strategic Community Plan - Theme 4 – Local Government Leadership

OFFICER RECOMMENDATION – ITEM 8.2

- 1. THAT THE AUDIT COMMITTEE RECOMMENDS TO COUNCIL THAT COUNCIL RESOLVES TO ADOPT THE SHIRE OF DOWERIN 2017 COMPLIANCE AUDIT RETURN AND AUTHORISES THE CEO TO LODGE THE RETURN WITH THE DEPARTMENT OF LOCAL GOVERNMENT, SPORT AND CULTURAL INDUSTRIES.**

COMMITTEE RECOMMENDATION – ITEM 8.2

Moved: J. Whiteaker

Seconded: Cr A Metcalf

Carried: 4/0

THAT THE AUDIT COMMITTEE RECOMMENDS TO COUNCIL THAT COUNCIL RESOLVES TO:

- 1. RECEIVE THE REPORT ON THE COMPLIANCE AUDIT RETURN FROM MR GARY MARTIN;**
- 2. ADOPT THE SHIRE OF DOWERIN 2017 COMPLIANCE AUDIT RETURN AND AUTHORISES THE CEO TO LODGE THE RETURN WITH THE DEPARTMENT OF LOCAL GOVERNMENT, SPORT AND CULTURAL INDUSTRIES WITH THE FOLLOWING AMENDMENTS;**
 - i. UPDATE THE COMPLIANCE AUDIT RETURN TO REFLECT THE CURRENT STATUS OF THE INTEGRATED PLANNING AND REPORTING FRAMEWORK DOCUMENTS;**
- 3. UNDERTAKE THE 2018 INTERNALLY AND ENGAGE AND EXTERNAL CONSULTANT ON A BIENNIAL BASIS.**

8.3 INTERNAL CONTROLS

Date: 16 February 2018
File Ref:
Disclosure of Interest: Nil
Author: S. Fitchat, Manager Finance and Corporate Services
Senior Officer: A. Selvey, Chief Executive Officer
Attachments: Sample Checklist

Summary

This item provides an update on Business Arising from minutes of the Audit Committee meeting on 17 February 2017 regarding concerns with internal controls.

Background

During 2016 there were a number of anomalies found as part of the Audit process and presented to the Audit Committee in December 2016. Some of the significant concerns raised included the following:

Bank Reconciliation anomalies:

- 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.

Cash bank balances / Cashflow:

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

Comment

Bank reconciliation anomalies have been addressed via a monthly checklist to ensure that reconciliation of the bank accounts, reserves, investments, loans, debtor control accounts, BAS, GST, payroll and rates are carried out before completion of the financial statements. Actions on the checklist have been assigned to members of the Finance Team with timeframes. The responsible officer signs the reconciliation and the Finance Manager verifies the actions have been completed accurately. The checklist is signed by the Finance Manager and forwarded to the CEO with the Monthly Financial Statements.

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

- b) Dishonoured cheques were being missed. As above in Bank Reconciliation.
- c) EFT's were being processed in Synergy but not being paid, resulting in duplicate payments in the system. As above in Bank Reconciliation.
- d) Bpay payments were being duplicated and not picked up. As above in Bank Reconciliation.
- e) Interest not being correctly allocated to the reserve. As above in Bank Reconciliation.
- f) The manual (small) cheques not being correctly entered into Synergy. Small cheques discontinued.
- g) Errors due to transactions not being allocated to the correct posting period. As above in Bank Reconciliation.
- h) Bank fees not being entered. As above in Bank Reconciliation.
- i) Errors around the way the BAS payments were being processed. The BAS is currently being prepared by Finance Manager who is a qualified accountant and experienced in the preparation of BAS returns.

Cash bank balances / Cashflow:

A cashflow forecast spreadsheet has been implemented to ensure provision is made for loan payments and that the liquidity of the organisation is maintained.

Consultation

Consultation with the Shire's External Auditor has taken place.

Financial Implications

Additional duties absorbed by current staff as part of standard accounting practice.

Risk

Risk of fraud or anomalies in the misappropriation of cash management has been minimised.
Reputation risk and misconduct has been minimised.
Assurance of well controlled financial management prevents planned fraud. The occurrence of financial loss has been minimised. This provides the public, and government agencies assurance of accountability, trust, liquidity and sustainability for the future of the Shire.

Policy Implications

Processes outlined above align with Financial Management Policies as adopted by Council in October.

Statutory Implications

Compliance with *Local Government (Financial Management) Regulations 1996*.

Strategic Implications

Strategic Community Plan - Theme 4 – Local Government Leadership

OFFICER RECOMMENDATION – ITEM 8.3

THAT THE AUDIT COMMITTEE NOTES THE PROGRESS ON IMPROVEMENTS TO INTERNAL CONTROLS.

COMMITTEE RECOMMENDATION – ITEM 8.3

Moved: Cr B Ward

Seconded: J. Whiteaker

Carried: 4/0

THAT THE AUDIT COMMITTEE NOTES THE PROGRESS ON IMPROVEMENTS TO INTERNAL CONTROLS.

9. QUESTIONS FROM MEMBERS

Nil

10. URGENT BUSINESS

Nil

11. DATE OF NEXT MEETING

Date: To be advised (late June following interim audit).

Items for next meeting: Interim Audit

12. CLOSURE OF MEETING

The Chair closed the meeting at 9.33am.