

COUNCIL SECTION 2.7 ROLE IN OVERSIGHT (GOOD GOVERNANCE) CASE STUDY

CCC REPORT 10 OCTOBER 2016 “Report on a Matter of Governance at the Shire of Dowerin” – on our website

Despite all the rules and policies that are in place ...

6 October 2016 Shire of Dowerin Finance Manager received call from the fraud prevention unit of the Shire’s bank - the NAB, advising Shires credit card was being used to pay gambling debts.

This was news to the Shire President, the Council, the Shire’s auditor and the Shire’s employees but not the CEO.

NB: The **Shire’s finance officer** was unqualified and “beholden to the CEO” for her job. She was worried about the finances but had *no known avenue to raise her concerns*.

The **Dowerin CEO** had stolen undetected from Dowerin Residents and Ratepayers between 2011 – 2016:

- \$599,879.92 by credit card betting and direct fund transfers through 665 separate bank transactions;
- Used Shire credit card for private purposes greater than provided in his employment contract;
- Changed his employment agreement - without reference to Council - giving leave loadings, rent free house, house outgoings paid for, cashed out his long service leave; >
- The fixing up expenses: reviews, recovery through insurance, new appointments, correcting records, changing systems, re-establishing governance , reauditing, correcting general ledger, increased crime liability insurance, reconstruction of BAS statements going back years, unfreezing federal roads funding grant monies, reputational damage

The CCC noted that this had all happened in the light of **2012** CCC findings and recommendations about a similar situation at the Shire of Murchison with that CEO.

The **Dowerin CEO** controlled the Dowerin finances with no effective oversight: including completing the compliance audit report, having access to and using all the staff NAB dongles, not advising of need for audit committee, not supplying financial records as required... He was not compelled to do so by the Auditor, the Council or the Department.

Contrary to the Local Government Act there was no audit committee.

Contrary to good governance Dowerin had no credit card policy, and few financial policies.

The **Shire’s auditor** knew of non-compliance but did nothing including not reporting the non-compliance to Council.

The **Department of Local Government** has identified Dowerin as medium risk in **2014**. The Department was aware of the LG Act non-compliance but not until 2015 were letters sent to the Shire President **22 July and 18 September 2015**. These letters were never received by the Shire President and the CCC speculated that they were diverted by the CEO. The Department did not follow up letters that went unanswered. CCC states *although the Department has an important role, the LGA places responsibility on Council to govern LG Affairs* [215].

Acting CEO asked the Department for help but did not receive a response > Acting CEO had to manage upset staff, organise a forensic audit, establish audit and finance committees, establish a complaints' register and register of financial interests > handover to new CEO.

Council had not understood their primary duty as a governance role included CEO oversight, or understand the limits of an audit in detecting fraud. There was *a breakdown in the checks and balances that should have detected the unauthorised transactions*. Shire President did not know Council was supposed to oversee credit card expenditure or that there was a such a thing as a *“scope for an audit”*. Council *placed its trust in CEO* and this was *misplaced* [186].

CCC recommendation was to remind all LGs that:

- An audit committee is compulsory
- Council must pay attention to the **scope** of an audit
- An ordinary audit may not detect fraud
- Council is responsible for robust policies and procedures to mitigate fraud risk

Differences since Dowerin:

State Auditor is auditor but still contracting out to existing auditors

State Auditor is producing reports of best local government risk mitigation practice – see lgema.org website

MESSAGE:

Whistle-blowers need a safe place and they need to know how to access it.

Cr training is unlikely to overcome the authority of a CEO who is trusted and experienced.

Audits do not necessarily pick up fraud. An annual audit is not a forensic audit and is not a probity audit.

Council is on its own when responsibility for fraud is being allocated.