

# Shire of Cocos (Keeling) Islands

## Shire of Cocos (Keeling) Islands

### Agenda

### **Audit and Governance Committee Meeting**

**18 November 2020, 12.30pm**

**Council Chambers, Home Island**

## **NOTICE OF MEETING**

In accordance with the Clause 12(3) of the *Local Government (Administration) Regulations 1996*, notice is hereby given of a Shire of Cocos (Keeling) Islands Audit and Governance Committee Meeting to be held at the Shire of Cocos (Keeling) Islands, Council Chambers on Home Island on **Wednesday 18 November 2020** commencing at **12.30pm**.

Andrea Selvey  
**Chief Executive Officer**

### **DISCLAIMER**

The advice and information contained herein is given by and to the Council without liability or responsibility for its accuracy. Before placing any reliance on this advice or information, a written inquiry should be made to the Council giving entire reasons for seeking the advice or information and how it is proposed to be used. Please note this agenda contains recommendations which have not yet been adopted by Council.

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## OUR VALUES

### Service

Provide the best service we can.

We serve the community and each other.

### Accountability

We take responsibility for our own actions.

We do what we say we will do.

Mistakes are an opportunity to learn.

### Support

We support our team and our community.

Look for opportunities to help each other.

### Respect

We respect and value others.

Our interactions are always respectful towards others.

### Integrity

We will be honest and transparent with all our dealings.

Maintain confidentiality.

Trust each other.

### Achievement

Being proactive and enabling the outcomes.

Be creative and think outside the square.

### **Disclaimer**

Members of the public should note that in any discussion regarding any planning or other application that any statement or intimation of approval made by any member or officer of the Shire during the course of any meeting is not intended to be and is not to be taken as notice of approval from the Shire. No action should be taken on any item discussed at a Council meeting prior to written advice on the resolution of the Council being received. Any plans or documents contained in this document may be subject to copyright law provisions (Copyright Act 1968, as amended) and the express permission of the copyright owner(s) should be sought prior to the reproduction.

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## 1. OPENING/ANNOUNCEMENTS OF VISITORS

## 2. ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

## 3. PUBLIC QUESTION TIME

Meetings shall be generally open to the public pursuant to the *Local Government Act 1995, s5.23* and include question time for members of the pursuant to the *Local Government Act 1995, s5.24*.

## 4. DECLARATION OF INTERESTS

Members of the Committee are bound by the provisions of *the Local Government Act 1995, Section 5.65* with respect to disclosure of financial, impartiality or proximity interests.

## 5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

- 5.1 Audit Committee Meeting held on **18 June 2020**  
Attachment 5.1

PURSUANT TO SECTIONS 3.18 AND 5.22(2) OF THE LOCAL GOVERNMENT ACT 1995, THE MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING HELD ON 18 JUNE 2020, ARE PRESENTED IN ATTACHMENT 5.1 FOR CONSIDERATION BY THE AUDIT AND GOVERNANCE COMMITTEE

## 6. PRESENTATIONS

Efthalia Samaras, Director Financial Audit, Office of the Auditor General for Western Australia will present to the Audit and Governance Committee (the Committee) to conduct the Audit Exit Meeting. This meeting is appropriate for good governance, to ensure that the Committee is fully informed on matters relating to the Audit and to satisfy legislative requirements.

***Extract from the Local Government Act 1995***

### ***7.12A. Duties of local government with respect to audits***

- (1) *A local government is to do everything in its power to —*

- (a) assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and*
  - (b) ensure that audits are conducted successfully and expeditiously.*
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.*

## 7. OFFICER'S REPORTS

### 7.1 OFFICE OF THE AUDITOR GENERAL MANAGEMENT LETTER

#### Report Information

Date: 12 November 2020  
 Location: N/A  
 Applicant: Shire of Cocos (Keeling) Islands  
 File Ref:  
 Disclosure of Interest: Nil  
 Reporting Officer: Deputy Chief Executive Officer  
 Island: N/A  
 Attachments: 7.1 OAG Management Letter 2020 & OAG Management Letter 2019

#### Background

To provide the Audit and Governance Committee (the Committee) with the Management Report from the Office of the Auditor General (OAG) for consideration.

#### Comment

The OAG has conducted the interim and end of year audits for the Shire of Cocos (Keeling) Islands for the last two years. Following the interim audit in 2019 the Shire received a management letter which raised issues in 11 areas as summarised in the table below:

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Review of Monthly Asset Reconciliations		✓	
2. Debtor Requisition Forms		✓	
3. Stocktake of Non-Current Assets and Inventory		✓	
4. Purchase Orders		✓	
5. Write-offs		✓	
6. Policies and Procedures		✓	
7. Daily Cash Receipting		✓	
8. Late Follow Up of Debtors		✓	



9. Asset Disposals		✓	
10. Lease Agreements		✓	
11. Purchase Quotations		✓	

The Shire has just received the management letter following the 2020 audit which shows a large reduction in findings from the previous year as follows:

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
<b>Findings identified in current year</b>			
1. Remote Access Management		✓	
<b>Matters outstanding from prior year</b>			
2. Policies and Procedures		✓	
3. Stocktake of Non-current Assets		✓	
4. Follow up of Aged Debtors		✓	

For further details on each finding both the 2019 and 2020 management reports are attached to this agenda item.

### **Policy and Legislative Implications**

*Local Government (Audit) Regulations 1996 (WA) (CKI)*

### **Financial Implications**

Improvements to systems and processes will require human and financial resources; however, these will either be managed within current resource allocations or, where they require an additional allocation, an appropriate request will be formally presented to Council.

### **Strategic Implications**

Community Strategic Plan Objective: Civic Leadership

### Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	N/A	N/A	N/A
Health & Safety	N/A	N/A	N/A
Reputation	N/A	N/A	N/A
Service Interruption	N/A	N/A	N/A
Compliance	N/A	N/A	N/A
Property	N/A	N/A	N/A
Environment	N/A	N/A	N/A
Fraud	Inappropriate and ineffective financial management systems increase the likelihood and risk of fraud.	Moderate (5)	Ensure strong internal controls are in place and operating as intended.

### Risk Matrix

Consequence / Likelihood	Insignificant (1)	Minor (2)	Medium (3)	Major (4)	Extreme (5)
<b>Almost Certain (5)</b>	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
<b>Likely (4)</b>	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
<b>Possible (3)</b>	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
<b>Unlikely (2)</b>	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
<b>Rare (1)</b>	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

### OPTIONS FOR THE AUDIT AND GOVERNANCE COMMITTEE TO CONSIDER:

Option One:

The Audit and Governance Committee (the Committee) notes the 2020 Management Letter from the Office of the Auditor General.

Option Two:

That the Audit and Governance Committee (the Committee) defers consideration of the 2020 Management Letter until further detail on each action is developed.

Option Three:

As determined by the Audit and Governance Committee

## 7.2 REGULATION 5 FINANCIAL MANAGEMENT REVIEW ACTION PLAN

### Report Information

Date:	12 November 2020
Location:	N/A
Applicant:	Shire of Cocos (Keeling) Islands
File Ref:	
Disclosure of Interest:	Nil
Reporting Officer:	Deputy Chief Executive Officer
Island:	N/A
Attachments:	7.2 Regulation 5 FMR Action Plan

### Background

Regulation 5 of the *Local Government (Financial Management) Regulations 1996 (WA) (CKI)* requires Local Government Chief Executive Officers (CEOs) to review the appropriateness and effectiveness of their local government's financial management systems and procedures at least once every three financial years.

The following is an extract from the *Local Government (Financial Management) Regulations 1996 (WA) (CKI)* (the Regulations):

#### 5. CEO's duties as to financial management

##### (2) The CEO is to —

- (c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.

Megan Shirt, an experienced Local Government Financial Management Consultant, was engaged by the Shire to undertake an independent financial management review for the Shire. Samples were selected and systems tested during an onsite visit in March 2019 for the 12 months from March 2018 – February 2019.

The Regulation 5 Financial Management Review Report was presented to the Shire's Audit and Governance Committee on 18 June 2020, given the remit of the committee in both financial controls and governance matters as per the terms of reference.

The Regulation 5 Financial Management Review Report also tabled a list of 'actions/comments' to be considered' to improve the financial management systems and

procedures reviewed. The Audit and Governance Committee made the following resolution:

*That the audit and governance committee receives the Shire of Cocos (Keeling) Islands financial management report for June 2020 and seeks implementation plan and timeline on the identified actions at the next audit and governance committee meeting.*

As required by the Regulations, the review was formally presented at the June 2020 Ordinary Meeting for Council to receive the report.

### **Comment**

Subsequent to the on-site testing conducted for the FMR the Shire has been working to address improvement opportunities that were highlighted. An action plan has been developed to address each point raised through the FMR report. A number of items on the action plan have already been complete; timeframes and responsibility has been assigned to the balance.

### **Policy and Legislative Implications**

*Regulation 5 of the Local Government (Financial Management) Regulations 1996 (WA) (CKI)*

### **Financial Implications**

Improvements to systems and processes as identified in this action plan will require human and financial resources; however, these will either be managed within current resource allocations or, where they require an additional allocation, an appropriate request will be formally presented to Council.

### **Strategic Implications**

Community Strategic Plan Objective: Civic Leadership

### Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	Revenue loss to the Shire.	Low (2)	Managed to ensure good practices.
Health & Safety	N/A	N/A	N/A
Reputation	N/A	N/A	N/A
Service Interruption			
Compliance	Non-Compliance with Act if FMR not carried out.	Low (4)	Compliance calendar in place.
Property	N/A	N/A	N/A
Environment	N/A	N/A	N/A
Fraud	Inappropriate and ineffective financial management systems increase the likelihood and risk of fraud.	Moderate (5)	Ensure strong internal controls are in place and operating as intended.

### Risk Matrix

Consequence / Likelihood	Insignificant (1)	Minor (2)	Medium (3)	Major (4)	Extreme (5)
<b>Almost Certain (5)</b>	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
<b>Likely (4)</b>	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
<b>Possible (3)</b>	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
<b>Unlikely (2)</b>	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
<b>Rare (1)</b>	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

### OPTIONS FOR THE AUDIT AND GOVERNANCE COMMITTEE TO CONSIDER:

#### Option One:

The Audit and Governance Committee (the Committee) receives the Regulation 5 Financial Management Review Action Plan from the Chief Executive Officer and seeks an update on progress of all actions at the next meeting of the Committee.

#### Option Two:

That the Audit and Governance Committee (the Committee) defers consideration of the Action Plan until further detail on each action is developed.

#### Option Three:

As determined by the Audit and Governance Committee

### 7.3 REGULATION 17 ACTION PLAN

#### Report Information

Date: 11 November 2020  
Location: N/A  
Applicant: Shire of Cocos (Keeling) Islands  
File Ref:  
Disclosure of Interest: Nil  
Reporting Officer: A. Selvey, Chief Executive Officer  
Island: N/A  
Attachments: 7.3 Regulation 17 Action Plan

#### Background

Regulation 17 of the *Local Government (Audit) Regulations 1996 (WA) (CKI)* requires Local Government Chief Executive Officers (CEOs) to review the appropriateness and effectiveness of their local government's systems and procedures at least once every three financial years. The three systems specified in Regulation 17 are risk management, internal controls and legislative compliance.

The following is an extract from the Local Government (Audit) Regulations 1996 (WA) (CKI) (the Regulations):

*17. CEO to review certain systems and procedures*

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
- (a) risk management; and*
  - (b) internal control; and*
  - (c) legislative compliance.*
- (2) The review may relate to any or all matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) The CEO is to report to the audit committee the results of that review.*

The Shire of Cocos (Keeling) Islands (the Shire) conducted a regulation 17 review from September 2019 to June 2020. The Shire completed the regulation 17 review with the support of Civic Legal through the Project Aware program. This involved completing a profile of over 80 systems and procedures, selecting systems and procedures to review in detail and assessing how appropriate and/or effective the selected systems and procedures are.

The Regulation 17 Report was presented to the Shire's Audit and Governance Committee on 18 June 2020, in accordance with regulation 17(3) of the Regulations. The Regulation 17 Report also identified 'actions to be considered' to improve the systems and procedures reviewed. The Audit and Governance Committee made the following resolution:

*That the Audit and Governance Committee receives and reviews the Shire of Cocos (Keeling) Islands Regulation 17 Report given to it by the CEO under regulation 17(3) (the CEO's Report) and:*

- i. Reports to the Council the results of that review;*
- ii. Gives and copy of the CEO's Report to the Council; and*
- iii. Seeks implementation plan and timeline on actions from the CEO for the next Audit and Governance Committee meeting.*

The Shire Council received a copy of the review and noted the results of the Audit and Governance Committee's review of the CEO's Regulation 17 Report on 24 June 2020.

### **Comment**

In the months following the presentation of the Regulation 17 Report to the Audit and Governance Committee, the Leadership Team has been developing Action Plans for improving each system and procedure reviewed. The Action Plans identify the implementation plans and timelines of actions for all systems and procedures identified in the Regulation 17 Report, as presented to the Audit and Governance Committee on 18 June 2020. 11 Action Plans have been developed and several actions have been completed since June or have been commenced. For more details regarding the review of each system and procedure, please refer to the Regulation 17 Report as presented to the Audit and Governance Committee on 18 June 2020.

### **Policy and Legislative Implications**

*Regulation 17 of the Local Government (Audit) Regulations 1996 (WA) (CKI)*

### **Financial Implications**

Improvements to systems and processes as identified in this action plan will require human and financial resources; however, these will either be managed within current resource allocations or, where they require an additional allocation, an appropriate request will be formally presented to Council.

## Strategic Implications

Community Strategic Plan Objective: Civic Leadership

## Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	Revenue loss to the Shire.	Low (2)	Managed to ensure good practices.
Health & Safety	N/A	N/A	N/A
Reputation	Disruption to current service.	Low (2)	Ensure IT and other services are managed professionally.
Service Interruption	Potential for IT and administrative disruption.	Low (1)	Ensure changes are managed professionally.
Compliance	Not compliant with legislation.	Low (2)	Review legislation regularly.
Property	N/A	N/A	N/A
Environment	N/A	N/A	N/A
Fraud			

## Risk Matrix

Consequence / Likelihood	Insignificant (1)	Minor (2)	Medium (3)	Major (4)	Extreme (5)
<b>Almost Certain (5)</b>	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
<b>Likely (4)</b>	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
<b>Possible (3)</b>	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
<b>Unlikely (2)</b>	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
<b>Rare (1)</b>	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

## OPTIONS FOR THE AUDIT AND GOVERNANCE COMMITTEE TO CONSIDER:

### Option One:

The Audit and Governance Committee (the Committee) receives the Regulation 17 Report Action Plan from the Chief Executive Officer and seeks an update on progress of all actions at the next meeting of the Committee.

### Option Two:

That the Audit and Governance Committee (the Committee) defers consideration of the Regulation 17 Report Action Plan until further detail on each action is developed.



Option Three:

As determined by the Audit and Governance Committee

## **8. MATTERS BEHIND CLOSED DOORS**

## **9. CLOSURE OF BUSINESS**