

Shire of Cocos (Keeling) Islands

Shire of Cocos (Keeling) Islands

Minutes

Audit and Governance Committee Meeting

Wednesday 27 April 2022, 11.30am (CKI time)

**1.00pm (Perth time) via Video Conferencing
Platform**

Council Chambers, Administration Building

Lot 256 Jalan Bunga Melati, Home Island

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

The meeting was formally opened by the Chair of the Audit and Governance Committee, Cr Young at 11.45am.

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

Presiding Member Cr Young

Committee Member Cr Lacy
Mr Anastasakis (Video link)

Staff Chief Executive Officer, Kelli Small
Manager Finance and Corporate Services, Vikki Lauritsen
Governance and Risk Coordinator, Ibrahim Macrae

Visitors Nil

APOLOGIES Cr Minkom

APPROVED LEAVE OF ABSENCE: Nil

3. 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.

Name	Item No	Interest	Nature
NIL			

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

4.1 Audit Committee Meeting held on 16 March 2022
Attachment 4.1

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 16 MARCH 2022, ARE PRESENTED IN ATTACHMENT 4.1 FOR CONSIDERATION BY THE AUDIT AND GOVERNANCE COMMITTEE.

COUNCIL RESOLUTION – ITEM NO 4.1

MOVED CR YOUNG

SECONDED CR LACY

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 16 MARCH 2022, ARE PRESENTED IN ATTACHMENT 4.1 FOR CONSIDERATION BY THE AUDIT AND GOVERNANCE COMMITTEE.

THE MOTION WAS PUT AND DECLARED CARRIED (3/0)

FOR: ANASTASAKIS, LACY, YOUNG

AGAINST: NIL

5. PRESENTATIONS

Nil

6. OFFICER'S REPORTS

6.1 PRESENTATION OF THE 2020/2021 AUDITORS REPORT

Report Information

Date: 12 April 2022
Applicant: Shire of Cocos (Keeling) Islands
File Ref:
Location: Not Applicable
Disclosure of Interest: Nil
Reporting Officer: Manager Finance & Corporate Services
Island: Shire Wide
Attachments: 6.1.1 - Annual Financial Statements for the year ended 30 June 2021,
Independent Auditors Report 2021, Draft Annual Report 2020/21
6.1.2 - Confidential Management Letter

Authority / Discretion

Definition

<input type="checkbox"/>	Advocacy	<i>when Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.</i>
<input type="checkbox"/>	Executive	<i>the substantial direction setting and oversight role of the Council. E.g., adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i>
<input checked="" type="checkbox"/>	Legislative	<i>includes adopting local laws, town planning schemes and policies. Review when Council reviews decisions made by officers.</i>
<input type="checkbox"/>	Quasi-Judicial	<i>when Council determines an application / matter that directly affects a person's right and interest. The judicial character arises from the obligations to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licenses, applications for other permits / licenses.</i>
<input type="checkbox"/>	Information	<i>Includes items provides to Council for information purposes only that do not require a decision of Council (i.e. – for noting).</i>

Report Purpose

To receive the Audit Report for the 2020/2021 Financial Year and recognise the meeting held with the Shires Auditors.

Relevant Documents

Available for viewing at the meeting

Nil

Background

The Office of the Auditor General (OAG) conducted an on-site Audit from the 15 to the 19 November 2021. This year's Annual Financial Statements included adjustments to separate the Land Trust 1979 and Land Trust 1984 from the Shires Financial Statements, requiring significant time, effort and expense from staff, consultants and auditors. Following the conclusion of the Audit an Audit Exit Meeting was held on the 8th April 2022 between the Kelli Small - CEO, Vikki Lauritsen – Manager Finance & Corporate Services and Efthalia Samaras – Director of Financial Audit at the OAG. It is a requirement under *Section 7.12A (2) of the Local Government Act 1995 (WA) (CKI)* that the Audit and Governance Committee meets with the Local Governments Auditor at least once every 12 months.

As a requirement of the *Local Government Act 1995 (WA)(CKI)* the Shires Auditors are required to report on certain compliance matters and any other matters which arise during the course of their audit. The Independent Auditors Report is the format in which the Auditors report this information and was received on 8 April 2022.

The Audit Committee is to examine the Annual Financial Report, review any matters raised by the Auditor in the Management Report and ensure that appropriate action is taken in respect to those matters raised.

Section 5.27 of the *Local Government Act 1995 (WA) (CKI)* requires a general meeting of electors to be held not more than 56 days after the local government accepts the annual report.

In order to set a date for the 2022 Electors' General Meeting (EGM), the Council is required to have both received the audit report for the prior period as well as having accepted the Annual Report. In addition to acceptance of the Annual Report at the next Ordinary Council Meeting, approval of Council will be sought to set the date of the Electors' General Meeting.

Upon acceptance of the Annual Report and approval of the EGM date and time, statutory advertising will take place and the final version of the Annual Report will be made available for viewing on the night of the Elector's General Meeting and at any time on the Shire's website.

This report presents the audited Annual Financial Report including the Independent Auditor's Report and the Management Letter from the Shire's Auditors for the year ended 30 June 2021. A copy of the draft Annual Report for the year ended 30 June 2021 is attached for the Audit and Risk Committee's review.

An unqualified opinion has been issued, meaning that the Shire of Cocos (Keeling) Island's financial records and statements are fairly and appropriately presented, and in accordance with Australian Accounting Standards Board (AASB) and the *Local Government Act 1995 (WA)(CKI)*.

Comment

The Audit Report received shows an unqualified audit opinion of the 2020/2021 Annual Financial Statements for the Shire. However, the report highlighted several material matters, two matters regarding adverse trends in two of the Shires Ratio calculations in Note 29 and four matters indicating non-compliance with Part 6 of the Act, the Regulations or applicable financial controls.

The first material matter noted the significant adverse trend in the Shires Asset Sustainability Ratio and Own Source Revenue Coverage Ratio.

Asset Sustainability Ratio:

The Asset Sustainability Ratio expresses capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. It is used to identify any potential decline or improvement in asset conditions. A percentage of less than 100% on an ongoing basis indicates assets may be deteriorating at a greater rate than spending on renewal or replacement.

The DLGSC states that the purpose of this ratio is to indicate whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out. This ratio has been below the Department of Local Government, Sport and Cultural Industries target level of 0.90 for at least the last 3 years.

As a result of the last Community Strategic Plan, the Shire has focused on constructing new capital assets and community amenities in response to community feedback at the expense of renewing existing assets. The Shire continues to work to balance the expectations of the community and the services it provides with the revenue sources available at the time.

The Shire will be developing a new Long Term Financial Plan in the 2022/23 Financial Year and will include a review of the Shires asset management plans. Ratios provide useful information when compared to industry and internal benchmarks and can assist in identifying trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future.

Own Source Revenue Coverage Ratio:

The Own Source Revenue ratio is a measurement of the Shires ability to cover its costs through its own revenue efforts with a basic standard being achieved if the ratio is between 0.40 and 0.60.

This ratio is affected by the level of private works obtained from year to year and also the level of operational grant funding received. Given the Shires dependency on Commonwealth funding (Federal Assistance Grants) and its limited rates base, it is unlikely to meet the DLGSCI benchmark for this ratio.

The Audit Report also identified 4 items of non-compliance outlined below,

- The Shire has not reported the Asset Renewal Funding Ratio for the last three years as the Shire is yet to revise the Long-Term Financial Plan and Asset Management Plan following the separation of the Trust Assets from the Shires accounts. The Shire will be developing its Long-Term Financial Plan as well as revisiting its Asset Management Plans in 2022/23 and expects to be able to report on this ratio for the 2022/23 Annual Financial Report.

- The Shire has not reported the Operating Surplus Ratio and Own Source Coverage Ratio for 2019 as disclosed at Note 29. The time and expense required to re-state the 2019 operating revenues and expenses in line with the Trust separation outweighed the benefit of restating the ratio for 2019.
- The Shire does not have policies and procedures in place for financial management and internal controls for key areas of the business such as revenue processes, risk management, business continuity and disaster recovery. The Shire aims to implement a 'Significant Accounting Policy' prior to June 2022. The Shire considers this to be an administrative policy that does not require Council adoption. The Governance and Risk Coordinator has drafted a Risk Management Policy to be presented to Council prior to June 2022. The outcome following this will be to introduce the Risk Management Framework including Risk Registers into the Organisation.
- The OAG identified significant weaknesses in remote access and network security controls at the Shire. In February 2022 the Shire engaged an experienced contractor to complete an IT Health Check. The subsequent report was presented to Council in March 2022 with Council voting to acknowledge the risk to the Shire should the recommendations within the IT Health Check report remain outstanding. As a result of this review a number of recommended actions are expected to be completed through the remainder of the 2022 and 2023 budgets. These actions will address the remote access and network security issues as well as business continuity and disaster recovery plans.

Policy and Legislative Implications

Local Government Act 1995 (WA) (CKI)

Section 1.4 Financial Report

Section 5.27 Electors General Meeting

Section 5.53 Annual Reports

Section 5.54 Acceptance of Annual Reports

Section 5.55 Notice of Annual Reports

Division 3A Financial Audit

Financial Implications

Due to the significant work required in relation to the separation of Trust accounts from the Shire accounts, the OAG Audit fee is expected to be approximately \$10,000 higher than budgeted.

Strategic Implications

Strategic Community Plan: Civic Leadership

Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Reputation	For transparency it is important that the audit report is presented to the audit and governance committee.	Moderate (6)	There is a process in place to ensure the audit report to presented to the audit committee.
Compliance	The Report is to be presented to the Audit Committee annually in order to comply with relevant legislation.	Low (4)	There are processes in place to ensure compliance with relevant legislation.
Fraud	That the annual financial statements are materially misstated.	Moderate (8)	Annual statements are audited by the office of the auditor general.

Risk Matrix

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

Conclusion

That the Audit and Governance Committee recommends that Council receives the 2020/2021 Auditors Report of the Shire of Cocos (Keeling) Islands and notes the meeting held with the Shire's external auditors.

OFFICER RECOMMENDATION – ITEM NO 6.1

THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS THAT COUNCIL, IN ACCORDANCE WITH SECTION 5.54 OF THE *LOCAL GOVERNMENT ACT 1995 (WA)(CKI)*, AT ITS NEXT ORDINARY COUNCIL MEETING:

1. RECEIVE:
 - a. THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021, INCLUDING THE INDEPENDENT AUDITORS REPORT AS DETAILED AT ATTACHMENT 6.1.1
 - b. THE AUDITORS MANAGEMENT LETTER AS DETAILED IN CONFIDENTIAL ATTACHMENT 6.1.2; AND
 - c. THE 2020/21 ANNUAL REPORT AS DETAILED IN ATTACHMENT 6.1.1; AND

2. SET THE DATE FOR THE ANNUAL ELECTORS GENERAL MEETING AS WEDNESDAY 22 JUNE 2022 AT 3:45PM AT THE HOME ISLAND COUNCIL CHAMBERS AND AUTHORISE THE CEO TO GIVE PUBLIC NOTICE OF THE MEETING AND THE AVAILABILITY OF THE ANNUAL REPORT.

COUNCIL RESOLUTION – ITEM NO 6.1

MOVED MR ANASTASAKIS

SECONDED CR LACY

THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS THAT COUNCIL, IN ACCORDANCE WITH SECTION 5.54 OF THE *LOCAL GOVERNMENT ACT 1995 (WA)(CKI)*, AT ITS NEXT ORDINARY COUNCIL MEETING:

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THE MOTION WAS PUT AND DECLARED CARRIED (3/0)

FOR: ANASTASAKIS, LACY, YOUNG

AGAINST: NIL

7. MATTERS BEHIND CLOSED DOORS

Nil

8. CLOSURE OF BUSINESS

The Presiding member declared the meeting closed at 11.53am.

These minutes were confirmed at a meeting on _____.

SIGNED this _____ day of _____ 2022
as a true record of proceedings.

PRESIDING MEMBER