

Shire of Cocos (Keeling) Islands

Shire of Cocos (Keeling) Islands

Agenda

Audit and Governance Committee Meeting

**Wednesday 21 June 2023, 4.00pm (CKI time)
5.30pm (Perth time) via Video Conferencing
Platform**

**Community Resource Centre Meeting Room,
Administration Building, West 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**2. ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE (PREVIOUSLY APPROVED)****3. PUBLIC QUESTION TIME****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.

Name	Item No	Interest	Nature

5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

- 6.1 Audit Committee Meeting held on 27 March 2023
Attachment 6.1

RECOMMENDATION – ITEM NO 6.1

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 27 MARCH 2023, ARE PRESENTED IN ATTACHMENT 6.1 FOR CONSIDERATION BY THE AUDIT AND GOVERNANCE COMMITTEE.

6. PRESENTATIONS**7. OFFICER'S REPORTS**

7.1 REGULATION 17 REVIEW

Report Information

Date: May 2023
 Applicant: Shire of Cocos (Keeling) Islands
 File Ref:
 Location: Not Applicable
 Disclosure of Interest: Nil
 Reporting Officer: Chief Executive Officer
 Island: Shire Wide
 Attachments: 7.1.1 - Regulation 17 Internal Audit Review – Paxon Group

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 present the Regulation 17 Internal Audit Review report for consideration by the Audit and Governance Committee.

Relevant Documents

Available for viewing at the meeting

Nil

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 last Shire of Cocos (Keeling) Islands Regulation 17 Report was formally presented to the Shire of Cocos (Keeling) Islands Audit and Governance Committee on 18 June 2020. This requires the next review to be reported to the Audit and Governance Committee by June 2023.

This year the Shire appointed Paxon Group to undertake the Regulation 17 Review for the Shire. The objective of the Paxon Group Regulation 17 Review is to provide a report, based on their understanding of the Shire of Cocos (Keeling) Islands, to assist the CEO in reporting to the Audit and Governance Committee on the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal control, and legislative compliance.

Comment

The Regulation 17 Review focussed on the risk that the Shire's systems and procedures relating to risk management, internal control and legislative compliance are not appropriate and effective.

The fieldwork was performed in February and March 2023 and focussed on the processes and controls in place at that time, or their last point of operation.

Paxon group have issued a Report highlighting that several key areas are not in place within the Shire's processes and controls frameworks or are not active. This includes:

- Risk management
- Business continuity and disaster recovery
- Fraud and Integrity Framework, and
- Record Keeping

The Report recommend that the Shire develop action plans for the remediation of these areas and reported to Audit and Governance Committee along with previously raised findings. This practice was commenced in 2022 but does not appear to be a standing agenda item at all Committee meetings.

The report recommends that management action plans within the comments section of each detailed finding should establish a balance between putting effective processes and controls in place and setting an expectation of delivery that cannot be achieved.

Potential enhancements to fraud and misconduct reporting were also noted.

Delegated authority not been reviewed within the Shire since 2021. This finding has been included within the Regulation 5 Financial Management report, a review which Paxon has also performed and so is not duplicated within this report.

Findings are summarised and documented in detail within the Report.

Policy and Legislative Implications

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

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

Nil

Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	Revenue loss to the Shire.	Low (2)	Managed to ensure good practices.
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.
Fraud	High risk actions may remain outstanding, putting the Shire's financial controls at risk, and open to fraudulent action.	Moderate	Close out all actions as soon as possible and look for continuous improvement opportunities.

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

As per Regulation 17 of the *Local Government (Audit) Regulations 1996 (WA)(CKI) 1996*, the CEO has conducted the review of the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal control, and legislative compliance and hereby presents The Shire of Cocos (Keeling) Islands Regulation 17 Review Report to the Audit and Governance Committee for consideration.

Voting Requirements

Simple Majority

OFFICER RECOMMENDATION – ITEM NO 7.1

THAT THE COMMITTEE:

- 1. NOTE THAT THE REGULATON 17 REVIEW HAS BEEN CONDUCTED AND THAT THE REPORT HAS BEEN PRESENTED TO THE COMMITTEE.**

- 2. RECOMMENDS TO COUNCIL THAT IT NOTES THE REVIEW REQUIRED BY THE *FINANCE REGULATIONS 1996 (WA) (CKI)* HAS BEEN COMPLETED AND IT RECEIVES THE ASSOCIATED REPORT.**

7.2 REGULATION 5 FINANCIAL MANAGEMENT REVIEW

Report Information

Date: May 2023
 Applicant: Shire of Cocos (Keeling) Islands
 File Ref:
 Location: Not Applicable
 Disclosure of Interest: Nil
 Reporting Officer: Chief Executive Officer
 Island: Shire Wide
 Attachments: 7.2.1 - Regulation 5 Internal Audit Review – Paxon Group

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 present the Financial Management Review report for review by the Audit and Governance Committee.

Relevant Documents

Available for viewing at the meeting

Nil

Background

Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 states:

“The CEO is to –

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.”

The previous review was conducted in June 2020. This year the Shire appointed Paxon Group to undertake an independent financial management review for the Shire. The objective of this review was to perform a review to meet the requirements of Regulation 5. This included review of processes and key controls within the following areas:

- *Proper collection of all money owing to the local government.*
- *Safe custody and security of all money collected or held by the local government.*
- *Maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process).*
- *Ensure proper accounting for all income, expenditure, assets, liabilities of the municipal or trust funds.*
- *Ensure proper authorisation for the incurring of liabilities and the making of payments.*
- *Maintenance of payroll, stock control and costing records.*
- *Preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.*

Comment

The Shire appointed Paxon Group to undertake an independent financial management review for the Shire. The review focused on the risk that the Shire’s financial management systems and procedures are not appropriate and effective. The review covered the period from 1 January 2022 to 31 December 2022.

Paxon group have issued a Report outlining the scope, methodology and audit findings. Management have provided comments to the audit findings within this report and outlined subsequent actions to be undertaken where necessary.

These actions will be included in the Audit Actions – Improvement Tracking list with updates to be provided to the Audit Committee on a regular basis.

This report has been tabled for the Audit and Governance Committee given the remit of the committee in both financial controls and governance matters as per the terms of

reference. The review will also be formally put to Council at the June 2023 Ordinary Council Meeting to receive the report as per the regulations.

Policy and Legislative Implications

Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996.

Financial Implications

The cost of the independent review has been met within the audit expenses area of the 2022/23 budget.

Strategic Implications

Nil

Conclusion

The Financial Management Review is presented under Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 for noting by the Audit and Governance Committee.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION – ITEM NO 7.2

THAT THE COMMITTEE:

- 1. NOTE THAT THE FINANCIAL MANAGEMENT REVIEW HAS BEEN CONDUCTED AND THAT THE REPORT HAS BEEN PRESENTED TO THE COMMITTEE.**
- 2. RECOMMENDS TO COUNCIL THAT IT NOTES THE REVIEW REQUIRED BY THE *FINANCE REGULATIONS 1996 (WA) (CKI)* HAS BEEN COMPLETED AND IT RECEIVES THE ASSOCIATED REPORT.**

7.3 AUDIT ACTIONS STATUS REPORT – JUNE 2023

Report Information

Date: 15 June 2023
 Applicant: Shire of Cocos (Keeling) Islands
 File Ref:
 Location: Not Applicable
 Disclosure of Interest: Nil
 Reporting Officer: Chief Executive Officer
 Island: Shire Wide
 Attachments: 7.3.1 - Confidential Attachment - Audit Actions Status Report – June 2023

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 checked="" 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 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

For the Committee to receive a report on the status of Audit Actions presented by internal and external auditors and other improvements as identified by officers.

Relevant Documents

Available for viewing at the meeting

Nil

Background

Local governments are required by the *Local Government Act* and associated regulations to carry out a number of audits/reviews, being:

- Annual financial audit – conducted by the Office of the Auditor General (s7.12AB)
- Systems and Controls Audit (LG Audit Regulation 17.)
- Review of Financial Management Systems and Procedures (LG Financial Management Regulation 5.) – conducted internally or by external consultant/auditor
- Other supplementary or performance audits as directed by the Office of the Auditor General (s7.12AF/s7.12AJ)

Some local governments are additionally utilising a formal internal audit program to ensure risk is managed, and opportunities for continuous improvement are identified.

At the conclusion of any of these audits, the auditor/reviewer, where required, will issue a management report, outlining any identified issues/risks and in most cases a recommendation for improvement. It is then up to management to determine the solution to be implemented and carry out the action.

Comment

It is important for the Audit Committee to maintain oversight of the status of any required actions, ensuring risks are managed effectively. For many councils, it is common practice that audit actions (be it internal or external audits) statuses are reported to the Committee to ensure that actions are closed out. To date, the Shire of Cocos (Keeling) Islands reports to the Committee at the conclusion of each Audit the management letter and any issues identified, provide comment, however where actions may not have been closed out, these can fall away and remain open/unactioned for a many reasons.

Officers have reviewed all Audit reports going back three years, collated all issues/actions listed and provided an update to the status as contained in Confidential Attachment 8.2.1. By incorporating this as a regular report to the Audit Committee it will ensure that accountability and transparency is maintained, and the Committee maintains oversight, identifying any high risks to the Shire.

This is a new process for the Shire and officers, and actions will be progressed as a matter of importance, however it must be noted that this will require a change management

focus within the organisation and the process and report will continue to evolve over time.

Policy and Legislative Implications

Section 7.12A of the Local Government Act (WA) (CKI)

Local Government (Audit) Regulations 1996

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 of the 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.

Local Government (Financial Management) Regulations 1996

5. CEO's duties as to financial management

(1) Efficient systems and procedures are to be established by the CEO of a local government —

(a) for the proper collection of all money owing to the local government; and

(b) for the safe custody and security of all money collected or held by the local government; and

(c) for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process); and

(d) to ensure proper accounting for municipal or trust —

(i) revenue received or receivable; and

(ii) expenses paid or payable; and

(iii) assets and liabilities; and

(e) to ensure proper authorisation for the incurring of liabilities and the making of payments; and

(f) for the maintenance of payroll, stock control and costing records; and

(g) to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.

(2) The CEO is to —

- (a) ensure that the resources of the local government are effectively and efficiently managed; and
- (b) assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and
- (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.

Financial Implications

Nil

Strategic Implications

Shire of Cocos (Keeling) Islands Strategic Community Plan 2022 – 2037

Objective L1: To be involved, respectful and inclusive and to facilitate diversity and representation within the decision-making process.

Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	High risk actions may remain outstanding, putting the Shire's financial controls at risk, and open to fraudulent action.	Moderate	Close out all actions as soon as possible and look for continuous improvement opportunities.
Reputation	Consecutively not completing audit recommendations can result in reputation risk to the Shire, and Local Government.	Moderate (6)	Providing the report to the Committee will ensure that transparency and accountability is maintained.
Fraud	High risk actions may remain outstanding, putting the Shire's financial controls at	Moderate	Close out all actions as soon as possible and look for continuous improvement opportunities.

	risk, and open to fraudulent action.		
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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 Committee receive the Audit Actions Status report for June 2023.

OFFICER RECOMMENDATION – ITEM NO 7.3

THAT THE AUDIT AND GOVERNANCE COMMITTEE, PURSUANT TO *REGULATION 16 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 (WA) (CKI)* RECOMMENDS THAT COUNCIL RECEIVE THE AUDIT ACTIONS STATUS REPORT FOR JUNE 2023 AS CONTAINED IN CONFIDENTIAL ATTACHMENT 7.3.1.

8. MATTERS BEHIND CLOSED DOORS

9. CLOSURE OF BUSINESS