

Shire of Cocos (Keeling) Islands

Shire of Cocos (Keeling) Islands

Minutes

Audit and Governance Committee Meeting

2 December 2020, 12.30pm

CRC Meeting Room, West Island

NOTICE OF MEETING

In accordance with the Clause12(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 CRC Meeting Room on West Island on **Wednesday 2 December 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

The meeting was formally opened by the Chair of the Audit and Governance Committee, Cr Minkom at 12.30pm.

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

Committee:

Presiding Member	Cr A Minkom
Deputy Presiding Member	Cr S Charlston
External Member	Mr Phillip Anastasakis (Via Video link)

Secretariat: J Soderlund, Acting Chief Executive Officer

Observers:

Staff A Selvey, Chief Executive Officer

Visitors: Nil

Public: Nil

APOLOGIES: Cr T Lacy

APPROVED LEAVE OF ABSENCE: Nil

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*.

Nil

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.

Nil

5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

- 5.1 Audit Committee Meeting held on **18 November 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 NOVEMBER 2020, ARE PRESENTED IN ATTACHMENT 5.1 FOR CONSIDERATION BY THE AUDIT AND GOVERNANCE COMMITTEE.

MOVED: CR CHARLSTON SECONDED: MR ANASTASAKIS

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 NOVEMBER 2020, ARE PRESENTED IN ATTACHMENT 5.1 FOR CONSIDERATION BY THE AUDIT AND GOVERNANCE COMMITTEE.

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

FOR: CR CHARLSTON, CR MINKOM, MR ANASTASAKIS
AGAINST: NIL

6. PRESENTATIONS

Nil

7. OFFICER'S REPORTS

7.1 PRESENTATION OF THE 2019/2020 AUDITORS REPORT

Report Information

Date: 26 November 2020
 Applicant: Shire of Cocos (Keeling) Islands
 File Ref:
 Location: Not Applicable
 Disclosure of Interest: Nil
 Reporting Officer: Deputy Chief Executive Officer
 Island: Shire Wide
 Attachments: 9.1 - 2019/2018 Audit Report

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 2019/2020 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) is now responsible for all Western Australian Local Government Audits. The OAG conducted an on-site Audit from the 30th October to the 10th November 2020. The Auditors are required to produce an Audit Report which was received on the 26th November 2020.

Comment

The Audit Report received shows an unqualified audit opinion of the 2019/2020 Annual Financial Statements for the Shire. The report highlighted three adverse trends in the Shires Ratios, the Asset Sustainability Ratio, the Operating Surplus Ratio and the Own Source Revenue Ratio.

The Asset Sustainability Ratio is affected by the portion of new verses renewal capital expenditure. Whilst the 2019/20 ratio was an improvement on the previous year .65 compared to .34 respectively it was still below the Department of Local Government, Sports and Cultural Industries (DLGSCI) benchmark of .90.

The Operating Surplus Ratio demonstrates the ability to service its day to day operational costs, including asset depreciation from its revenue base. Following the fair value of building assets in June 2017 the Shires depreciation costs (a non-cash expense) increased by 32% for the year ended 30 June 2018. This has put pressure on the Shires ability to have an operating surplus and meet the departments benchmark target, however it should be noted that this ratio has improved year on year over the last three years.

The Own Source Revenue ratio is affected by the level of private works obtained from year to year and also the level of operational grant funding received. The 40% increase in the 2017/2018 FY in the level of the Shires Financial Assistance grant has had a negative affect on this ratio. The Shires limited rates base means that it is likely to always be a challenge to mean the DLGSCI benchmark for this ratio.

Following the conclusion of the Audit an Audit Exit Meeting was held on the 18 November 2020 between the Audit Committee 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* (CKI) that the Audit and Governance Committee meets with the Local Governments Auditor at least once every 12 months.

Policy and Legislative Implications

Section 7.12A of the Local Government Act 1995 (CKI)
Local Government (Audit) Regulations 1996

Financial Implications

Nil

Strategic Implications

Strategic Community Plan: 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	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.
Service Interruption	N/A	N/A	N/A
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.
Property	N/A	N/A	N/A
Environment	N/A	N/A	N/A

Fraud	That the annual financial statements are materially misstated.	Moderate (8)	Annual statements are audited by the office of the auditor general.
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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 and Governance Committee recommends that Council receives the 2019/2020 Auditors Report of the Shire of Cocos (Keeling) Islands and notes the meeting held with the Shire's external auditors.

OPTIONS FOR THE AUDIT AND GOVERNANCE COMMITTEE TO CONSIDER:

Option One:

1. That, pursuant to *section 7.12a (3) of the Local Government Act 1995 (CKI)*, the audit committee resolves to recommend that council receives the audit report for the Shire of Cocos (Keeling) Islands for the year 2019/2020.
2. That, pursuant to *section 7.12a (2) of the Local Government Act 1995 (CKI)*, the audit committee recognises the exit meeting held with the Office of the Auditor General on the 18th of November 2020 as a meeting with the auditor of the Local Government.

Option Two:

As determined by the Audit and Governance Committee.

MOVED: CR CHARLSTON

SECONDED: MR ANASTASAKIS

THAT, PURSUANT TO SECTION 7.12A (3) OF THE LOCAL GOVERNMENT ACT 1995 (CKI), THE AUDIT COMMITTEE RESOLVES TO RECOMMEND THAT COUNCIL RECEIVES THE AUDIT REPORT FOR THE SHIRE OF COCOS (KEELING) ISLANDS FOR THE YEAR 2019/2020.

THAT, PURSUANT TO SECTION 7.12A (2) OF THE LOCAL GOVERNMENT ACT 1995 (CKI), THE AUDIT COMMITTEE RECOGNISES THE EXIT MEETING HELD WITH THE OFFICE OF THE AUDITOR GENERAL ON THE 18 NOVEMBER 2020 AS A MEETING WITH THE AUDITOR OF THE LOCAL GOVERNMENT.

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

FOR: CR CHARLSTON, CR MINKOM, MR ANASTASAKIS

AGAINST: NIL

7.2 REMOTE ACCESS MANAGEMENT - UPDATE

Report Information

Date: 26 November 2020
 Applicant: Shire of Cocos (Keeling) Islands
 File Ref:
 Location: Not Applicable
 Disclosure of Interest: Nil
 Reporting Officer: A Selvey, Chief Executive Officer
 Island: Shire Wide
 Attachments: 7.2 Remote Access Management – arising from 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 provide the Audit and Governance Committee (the Committee) with an update on the new risk identified by the Shire's External Auditor in the 2019/20 Management Letter in relation to remote access management.

Relevant Documents

Available for viewing at the meeting

Nil

Background

The Office of the Auditor General (OAG) is now responsible for all Western Australian Local Government Audits. The OAG conducted an on-site Audit on the Shire of Cocos (Keeling) Islands from 30 October to the 10 November 2020. A component of their audit involves accessing internal controls and risks. The Management Letter provided to the Shire following the 2020 Audit identified six areas of risk that were rated as 'moderate'. The Management Letter was presented in a report to the Audit and Governance Committee on 18 November 2020.

Comment

Of the six matters raised in the Management Letter, five were outstanding from previous years and improvements have been identified and process improvements are being implemented. The one new area of risk identified is outlined in the extract from the Management Letter below:

1. *Remote Access Management*

Finding

We reviewed the process to manage remote access to the Shire's systems and information, especially during the COVID-19 pandemic and identified the following issues:

- *the Shire has not developed policies or guidelines to manage remote access*
- *all staff who were working remotely from home, performed their tasks on Shire provided devices using personal WIFI to access the Shire's finance and payroll systems*
- *multifactor authentication (MFA) is not required for remote access*
- *there is no process to regularly review remote access logs to identify possible anomalies*

Rating: Moderate

Implication: Personal WIFI is less likely to use firewalls and more likely to rely on consumer-grade internet modems and routers which may have weaker security and insufficient product support. This exposes the entire network to cyber-attacks, could result in data loss and compromises data integrity and confidentiality.

Recommendation: The Shire should:

- *document and implement an appropriate remote access management process and clearly communicate the process to relevant stakeholders;*
- *review the implementation of VPN and two-factor authentication to improve the security of remote systems;*
- *ensure devices are installed with a firewall and antivirus protection to reduce risk of attacks; and*
- *based on an assessment of risk, develop and implement a security event logging and monitoring framework which includes regular review of remote access logs*

Management Comment:

The Shire will discuss this finding with its IT service provider (Market Creations) to develop a process considered appropriate for the Shire to manage remote access.

As per the Management Comment above, officers have spoken with the Shire's ICT provider and sought information on how this risk can best be managed in the Cocos ICT environment. Advice from the ICT provider is that two-factor authentication is logistically not possible given the lack of a mobile phone network; however Virtual Private Network (VPN) can be configured. VPN provides a secure connection on the network between the Shire office and other locations such as private homes.

Our ICT provider is currently working on a proposal to implement this system and expects to have a proposal to the Shire by 4 December 2020. Pending the cost, officers will review options to implement immediately if within budget parameters or will put a proposal before Council in February as part of the budget review process.

Policy and Legislative Implications

Local Government (Audit) Regulations 1996

Financial Implications

There are no financial implications arising from this report. There will be a financial implication to implement the VPN, which once received, will be considered in the context of the budget as outlined above.

It should however be noted that the financial implications of a breach of our ICT security could be far in excess of the cost of implementing improved security of our data.

Strategic Implications

Strategic Community Plan: Civic Leadership

Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	Loss of or compromised data	High (15)	Investigating options with our ICT provider
Health & Safety	N/A	N/A	N/A
Reputation	Reputational damage if private records are accessed illegally via the Shire's network	High (15)	Investigating options with our ICT provider
Service Interruption	Loss or corrupted data could result in prolonged service disruption	High (15)	Investigating options with our ICT provider
Compliance	The Shire is bound by the Privacy Act and is required by this legislation to protect private information. Failure to secure our data could result in the Shire being non-compliant with the Privacy Act.	High (15)	Investigating options with our ICT provider
Property	N/A	N/A	N/A
Environment	N/A	N/A	N/A
Fraud	N/A	N/A	N/A

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

This report provides an update for the Audit and Governance Committee so the Committee can be reassured that officers are acting promptly to mitigate this identified risk.

OPTIONS FOR THE AUDIT AND GOVERNANCE COMMITTEE TO CONSIDER:

Option One:

That, pursuant to the *Local Government (Audit) Regulations 1996*, the Audit and Governance Committee resolves to note the update on steps taken to address the remote access management risk identified in the 2020 Management Letter from the Shire's Auditor and seeks a further update on this matter at the next meeting of the Committee.

Option Two:

As determined by the Audit and Governance Committee

MOVED: MR ANASTASAKIS SECONDED: CR CHARLSTON

THAT, PURSUANT TO THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996, THE AUDIT AND GOVERNANCE COMMITTEE RESOLVES TO NOTE THE UPDATE ON STEPS TAKEN TO ADDRESS THE REMOTE ACCESS MANAGEMENT RISK IDENTIFIED IN THE 2020 MANAGEMENT LETTER FROM THE SHIRE'S AUDITOR AND SEEKS A FURTHER UPDATE ON THIS MATTER AT THE NEXT MEETING OF THE COMMITTEE.

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

FOR: CR CHARLSTON, CR MINKOM, MR ANASTASAKIS

AGAINST: NIL

