

Shire of Cocos (Keeling) Islands

Shire of Cocos (Keeling) Islands

Minutes

Audit and Governance Committee Meeting

17 February 2021, 12.00pm

Via Video Conferencing Platform

Council Chambers, 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 Minkom at 12.05pm

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

Committee:

Presiding Member	Cr A Minkom
Councillor	Cr T Lacy
External Member	Mr Phillip Anastasakis

Secretariat: J Soderlund, Deputy Chief Executive Officer

Observers: Nil

Visitors: Nil

Public: Nil

APOLOGIES: Cr S Charlston

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*.

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 **2 December 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 2 DECEMBER 2020, ARE PRESENTED IN ATTACHMENT 5.1 FOR CONSIDERATION BY THE AUDIT AND GOVERNANCE COMMITTEE.

MOVED: CR LACY

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 2 DECEMBER 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 LACY, CR MINKOM, MR ANASTASAKIS

AGAINST: NIL

6. PRESENTATIONS

7. OFFICER'S REPORTS

7.1 PRESENTATION OF THE COMPLIANCE AUDIT RETURN 2020

Report Information

Date: 16 February 2021
 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: 7.1 Compliance Audit Return 2020

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 refer the Shire's responses to the Department of Local Government Compliance Audit Return 2020 to Council for its consideration and adoption.

Relevant Documents

Available for viewing at the meeting

Nil

Background

In accordance with Regulation 14 of the Local Government (Audit) Regulations 1996 each local government in Western Australia must carry out an annual audit of statutory compliance for the period 1 January to 31 December, in the form of Department of Local Government Compliance Audit Return.

The 2020 Compliance Audit Return focuses on high risk areas of compliance and statutory reporting as prescribed in regulation 13 of the Local Government (Audit) Regulations 1996.

The Audit Committee is required to review the completed CAR and report the results to Council, prior to CAR adoption by Council and submission to the Department of Local Government, Sport and Cultural Industries by 31 March 2021.

Comment

Any reporting of non-compliance in CAR is a reminder for local government officers to engage with elected members via the audit committee to provide Council with a plan and timeframe within which to address non-compliance.

Policy and Legislative Implications

Local Government (Audit) Regulations 1996

Financial Implications

Nil

Strategic Implications

Nil

Risk Implication

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	Nil		
Health & Safety	Nil		
Reputation	Nil		
Service Interruption	Nil		N/A
Compliance	It is a Legislative requirement of council which must be adhered to.	Med (1)	A monthly Compliance Calendar assists the Shire to ensure Legislation is adhered to.
Property	Nil		
Environment	Nil	Nil	Nil
Fraud	Nil	Nil	Nil

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

The CAR is a timely reminder of the various areas of compliance required by local governments and is a sound mechanism to test compliance and areas on which to focus improvements

OFFICER'S RECOMMENDATION – ITEM NO 7.1

1. THAT THE AUDIT AND GOVERNANCE COMMITTEE, PURSUANT TO *REGULATION 14 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996*, RESOLVES TO:
 - a. NOTE THAT IT HAS REVIEWED THE COMPLIANCE AUDIT RETURN 2020 FOR THE SHIRE OF COCOS (KEELING) ISLANDS; AND
 - b. RECOMMEND THAT COUNCIL RECEIVES THE COMPLIANCE AUDIT RETURN 2020 FOR THE SHIRE OF COCOS (KEELING) ISLANDS.

COMMITTEE RESOLUTION – ITEM NO 7.1

MOVED: MR ANASTASAKIS

SECONDED: CR LACY

- 1. THAT THE AUDIT AND GOVERNANCE COMMITTEE, PURSUANT TO REGULATION 14 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996, RESOLVES TO:**
 - a. NOTE THAT IT HAS REVIEWED THE COMPLIANCE AUDIT RETURN 2020 FOR THE SHIRE OF COCOS (KEELING) ISLANDS; AND**
 - b. RECOMMEND THAT COUNCIL RECEIVES THE COMPLIANCE AUDIT RETURN 2020 FOR THE SHIRE OF COCOS (KEELING) ISLANDS.**

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

FOR: CR LACY, CR MINKOM, MR ANASTASAKIS

AGAINST: NIL

7.2 SECTION 7.12A(4) – 2020-21 FINANCIAL YEAR AUDIT REPORT

Report Information

Date: 16 February 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: 7.2 2019/2020 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>
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<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 a significant adverse trend identified in the Shire's 2019/20 Audit Report.

Relevant Documents

Available for viewing at the meeting

Nil

Background

In accordance with Section 7.12A of the Local Government Act 1995 (CKI) a local government must prepare a report addressing all matters identified as significant by the auditor in the audit report.

A circular released by the department of local government in February 2020 advises:

If the Auditor General or a local government's appointed auditor reports a significant matter in an audit report, section 7.12A of the Local Government Act 1995 (the Act) requires a response from the local government. The requirements of this response are:

- a. Upon receipt of the auditor's report, the local government must prepare a report for its Audit Committee to address the significant matters raised and outline what action(s) the local government has taken or intends to take in respect of each of the matters raised.*
- b. The Audit Committee minutes and the report to the Minister are referred to Council for proper review and endorsement of any proposed actions.*
- c. Within 3 months of receipt of the auditor's report, a copy of the Council-endorsed report must be provided to the Minister.*
- d. Within 14 days of providing a copy of the report to the Minister, a copy must be published on the local government's website.*

A local government is not considered compliant with its statutory obligations until all of the above actions have been completed.

Comment

Below is a copy of the report that has been prepared for the Minister.

REPORT

Section 7.12A(4)(a) of the Local Government Act 1995 (CKI)

Office of the Auditor General (OAG) – Financial Audit

Purpose of Report

To inform the Shire of Cocos (Keeling) Islands Audit and Governance Committee of the significant adverse trends identified by its Auditors in their report for the 2019/20 Financial Year.

Significant Matter Identified by OAG

The following matters were raised by the Auditors:

- *The Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past 3 years.*
- *The Own Source Revenue Coverage Ratio has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past 3 years.*
- *The Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past 3 years.*

Asset Sustainability Ratio:

The asset sustainability ratio is calculated as capital renewal and replacement expenditure / depreciation.

The DLGSCI basic target for this ratio is 90%.

Own Source Revenue Coverage Ratio:

The own source revenue coverage ratio is calculated as own source operating revenue / operating expense.

The DLGSCI basic target for this ratio is between 40% and 60%.

Operating Surplus Ratio:

The operating surplus ratio is calculated as operating revenue minus operating expense / own source operating revenue.

The DLGSCI basic target for this ratio is between 1% and 15%.

Implication

DLGSC Guidelines on Financial Ratios offers the following comments:

The Asset Sustainability ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to depreciation expense. Expenditure on new or additional assets is excluded. Depreciation expense represents an estimate of the extent to which the assets have been

consumed during that period. Measuring assets at fair value is critical to the calculation of a valid depreciation expense value.

The own source revenue coverage ratio is the measurement of a local government's ability to cover its costs through its own revenue efforts.

The operating surplus ratio is a key indicator of a local governments financial performance. A positive ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt. A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

Management Comment

Asset Sustainability Ratio:

This ratio is affected by the amount of capital renewal and replacement expenditure undertaken from year to year. The 2019/2020 financial year saw a greater focus on renewal expenditure compared to the previous year which saw a significant improvement in this ratio from 34% in 2018/2019 to 65% in the current year. All three years are however still below the DLGCI standard of 90%.

The accuracy of the depreciation figure also needs to be considered. The Shire has almost 70 kampong houses on its asset register which are being depreciated however they are currently on a long-term lease. The terms of the lease are as such that all renewal and replacement expenditure is the responsibility of the leaseholder. Therefore, the depreciation for these properties is included in the ratio calculation however the Shire is not responsible for their renewal.

The ratio also specifically stipulates capital renewal and replacement expenditure. There is a significant partition of expenditure that is recognised as an operating cost which further distorts this ratios accuracy.

Own Source Revenue Coverage Ratio:

The Shire is likely to always find it difficult to significantly improve this ratio. The Shire's small rates base with limited opportunity for expansion is likely to result in the Shire continuing to be heavily reliant on its annual Financial Assistance Grant allocation.

A 40% increase in the Shires Financial Assistance Grant allocation in the 2019 financial year has had a negative effect of this ratio as it has allowed for increases in our operating expenses.

Operating Surplus Ratio:

As own source operating revenue is used as the denominator in this ratio this Shire, like many regional and rural local governments in Western Australia, is again likely to find it impossible to meet the DLGSCI standard given the heavy reliant on Financial Assistance Grant funding. It is worth noting though that the ratio has had a consistent upward trend over the last three years increasing from -.42 to -.19 and -.14 respectively.

Action Taken or Intended to be Taken**Asset Sustainability Ratio:**

In 2019 the Shire created an Asset and Property Management Coordinator position to increase its focus on asset management and renewals; this focus has already seen an increased level of expenditure on capital renewal and replacements and corresponding improvement of this ratio.

Council will continue to monitor and ensure that adequate renewal projects are included in each new budget and work to continue the improvement in the ratio.

The Shire will also highlight to the OAG the distortion that the depreciation of the houses which are on a long-term lease is having on this ratio and present a case to have this excluded from the calculation.

Own Source Revenue Coverage Ratio & Operating Surplus Ratio:

The Shire will continue to monitor these ratios however given the unique circumstances of the Islands it is likely to always be very heavily reliant on the financial assistance grants. The Shire will continue to encourage the Commonwealth Government to invest in projects that it can carry out as private works to increase own source revenue, but this is outside the Shire's control.

Policy and Legislative Implications

Section 7.12A of the Local Government Act (CKI)

Financial Implications

Nil

Strategic Implications

Nil

Risk Implications

Risk Category	Description	Rating (consequence x likelihood)	Mitigation Action
Financial	Nil	Nil	Nil
Health & Safety	Nil	Nil	Nil
Reputation	The report on the significant adverse trends is open to public scrutiny.	Moderate (6)	The report outlines the factors that contribute to the adverse trends and explain some of the limitations of ratios.
Service Interruption	Nil	Nil	Nil
Compliance	The report is to be completed within three months of the local government receiving the audit report to comply with the regulations.	Low (4)	Processes in place to ensure compliance with legislation.
Property	Nil	Nil	Nil
Environment	Nil	Nil	Nil
Fraud	Nil	Nil	Nil

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 report on the significant adverse trends in the 2019/2020 Audit report.

OFFICER'S RECOMMENDATION – ITEM NO 7.2

THAT THE AUDIT COMMITTEE, PURSUANT TO *REGULATION 16 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 (CKI)* RECOMMENDS THAT COUNCIL:

1. NOTE THE SIGNIFICANT ADVERSE TRENDS IDENTIFIED IN THE 2019/20 AUDIT REPORT FOR THE ASSET SUSTAINABILITY RATIO, THE OWN SOURCE REVENUE COVERAGE RATIO AND THE OPERATING SURPLUS RATIO.
2. IN ACCEPTING THIS REPORT, AUTHORISE THE CHIEF EXECUTIVE OFFICER TO FORWARD A COPY OF THE REPORT TO THE MINISTER IN ACCORDANCE WITH SECTION 7.12A(4)(B) OF THE LOCAL GOVERNMENT ACT 1995 (CKI); AND
3. PUBLISH A COPY OF THIS REPORT ON ITS WEBSITE IN ACCORDANCE WITH THE PROVISIONS OF SECTION 7.12(4)(B).

COMMITTEE RESOLUTION – ITEM NO 7.2

MOVED: MR ANASTASAKIS

SECONDED: CR LACY

THAT THE AUDIT COMMITTEE, PURSUANT TO *REGULATION 16 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 (CKI)* RECOMMENDS THAT COUNCIL:

1. NOTE THE SIGNIFICANT ADVERSE TRENDS IDENTIFIED IN THE 2019/20 AUDIT REPORT FOR THE ASSET SUSTAINABILITY RATIO, THE OWN SOURCE REVENUE COVERAGE RATIO AND THE OPERATING SURPLUS RATIO.
2. IN ACCEPTING THIS REPORT, AUTHORISE THE CHIEF EXECUTIVE OFFICER TO FORWARD A COPY OF THE REPORT TO THE MINISTER IN ACCORDANCE WITH SECTION 7.12A(4)(B) OF THE LOCAL GOVERNMENT ACT 1995 (CKI); AND
3. PUBLISH A COPY OF THIS REPORT ON ITS WEBSITE IN ACCORDANCE WITH THE PROVISIONS OF SECTION 7.12(4)(B).

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

FOR: CR LACY, CR MINKOM, MR ANASTASAKIS

AGAINST: NIL

