



SHIRE OF CHRISTMAS ISLAND

PO BOX 863, Christmas Island

Indian Ocean 6798, Australia

All correspondence should be addressed to the Chief Executive Officer

Telephone: (08) 9164 8300

Facsimile: (08) 9164 8304

Website: www.shire.gov.cx

27 April 2022

Our Ref: 3.1.4

Hon Nola Marino MP
Assistant Minister for Regional Development and Territories
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

By Email: minister.marino@infrastructure.gov.au

Dear Assistant Minister

In the 20/21 Audit Report the auditor made the following comments.

Report on other legal and regulatory requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

(i) In my opinion, the following material matters indicate a significant adverse trend in the financial position of the Shire:

a) The Operating Surplus ratio as reported in Note 32 of the annual financial report has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI's) standard of 0.90 for the last three financial years; and

b) The Own Source Revenue Coverage ratio as reported in Note 32 of the annual financial report is below the DLGSCI's standard of 0.40 for the last three financial years.

(ii) The following material matter indicating non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any other relevant written law were identified during the course of my audit:

a) Significant weaknesses were identified in the Shire's general computer controls over user access and change management relating to the financial system. These weaknesses increase the risk of inappropriate or unauthorized access to the system and undermine the confidentiality, integrity and availability of the entity's financial system and information.

(iii) All required information and explanations were obtained by me.

(iv) All audit procedures were satisfactorily completed.

(v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the financial report were supported by verifiable information and reasonable assumptions

The Local Government Act 1995 requires the Shire to report on the actions taken to address those issues e) 7.12A. Duties of local government with respect to audits

- f) (4) A local government must —
 - g) (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
 - h) (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.
- i) (5) Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.

Accordingly, at the Ordinary Meeting of Council held 26th April 2022 in considering the CEO's report on the 18/19 Auditors Report passed the following resolution.

Council endorses the CEOs Report and directs the CEO to forward a copy of the Report to the Minister and to place on the Shire's Web Site in accordance with the Act.

A copy of that report is attached.

Yours Sincerely



David Price
Chief Executive Officer

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These matters were reported at a meeting of the Shire's Audit Committee on 22 March 2022, and the follow-up actions will be reported to the Shire's Audit Committee.

The following Report outlines:

1. The reasons for the situation
2. What the Shire has done
3. What it intends to do to mitigate the adverse trend and when.

1. The reasons for the situation

1. Own Source Revenue Coverage Ratio

"In Western Australia, the State has used the Financial Health Indicator (FHI) as a means of measuring the financial health of a local government and is published on the MyCouncil website. A result of 70 and above indicates sound financial health. The maximum result achievable is 100. The FHI is one factor to consider in assessing overall performance.

In presenting this information the integrity of the base indicators and the weighting between indicators plays a critical role.

The current calculation suffers from the flaws in the existing data and construction of the raw scores.

Serious consideration, in consultation with the industry and stakeholders, of the weightings needs to be undertaken.”

2. Operating Surplus Ratio

“Results are also subject to fluctuations by using own source revenue as the denominator in the calculations. Own source income used to calculate this ratio is not transparent and has little application for non-metropolitan local governments.

This ratio does not provide an accurate picture of operating results year on year. The volatility in the results is not a true reflection of the industries performance.”

Both the Own Source Revenue Coverage and Operating Surplus ratios in their current form will always have a negative result with small Shires that have a small rate income within their total revenue base. The review of these ratios and their application to Shires with small rate based revenue will provide a more realistic ratio application to such Shires.

The adoption of the Report\Model Financial Statements will assist all small Shires on the Own Source Revenue Coverage and Operating Surplus ratios (Attachment 1)

3. SynergySoft Financial Application – User Access Management

Finding

During our audit we identified the following issues relating to user management of the SynergySoft financial application:

- The Shire does not have a formal policy or procedure in place to manage user access (i.e., new user provisioning, de-provisioning and management of generic user accounts) or to perform periodic user access reviews for active SynergySoft administrator and user accounts
- The generic “Administrator” user account is shared between the finance manager and IT officer
- There is a segregation of duties (SoD) conflict where the finance manager has SynergySoft administration access, performs day-to-day operational activities and provides approval for and can provision new user access in the SynergySoft finance application.
- User activity logs are not reviewed to detect inappropriate access.
- No process is defined to maintain segregation of duties within the financial application, including a security matrix that provides visibility of roles assigned to each user with object level access to the application.

We acknowledge that during the audit period there was no onboarding or offboarding of user accounts.

Rating: Significant Implication

Without effective segregation of duties and user access management processes in place, there is an increased risk of unauthorised access to the finance system. This could impact the confidentiality, integrity of data, availability of the Shire systems and increases the risk of unauthorised and fraudulent transactions.

Recommendation

The Shire should:

- Develop a policy and implement a process to ensure named, generic and privileged accounts are appropriately requested, approved and de-provisioned (when required). Maintain audit trail of all account requested and approved.
- Ensure accounts are not shared between multiple employees
- Implement separate privileged and business as usual accounts for employees who need privileged accounts
- Segregation of duties controls are appropriately defined and implemented for the SynergySoft application and business users should not have “Administrator” privileges.

Management comment:

Develop a policy and implement a process to ensure named, generic and privileged accounts are appropriately requested, approved and de-provisioned (when required). Maintain audit trail of all account requested and approved.

Manager of Governance will develop a policy on named, generic and privileged accounts for IT Manager to execute. This will capture the list of current users, and training they have been provided to utilise the Synergy system.

Ensure accounts are not shared between multiple employees

The sole account on Synergy that has more than one person accessing it is the Administrator account. This is shared by the IT Manager and the IT Officer. The IT Officer knows the password to be able to access the Administration functions on Synergy should the IT Manager be unable to do so

Implement separate privileged and business as usual accounts for employees who need privileged accounts

In analysing the BAU accounts and the Privileged (Administration) accounts, the Shire notes that it is only the IT Manager and the IT Officer that share the Administration account access. The Shire considers it an acceptable risk for the IT Manager and the IT Officer to have access to the same Administration Account as the ability to verify whom made a systems Administrative level change between the two is easy.

Segregation of duties controls are appropriately defined and implemented for the SynergySoft application and business users should not have “Administrator” privileges.

The sole employee/business user with Administrator privileges is the IT Officer. The Shire considers this an acceptable risk. The Shire considers the practical benefits of having a second person with the ability to have Administrator access on remote Christmas Island as being more practical than having total Administrator access siloed to one person.

The Shire will investigate with Synergy vendor if there is a 'log function' on the platform that can record when the Administrator access has been used. It is noted that the IT Manager is the only person that would use this with any regularity. Any unusual log-ins will be easily identifiable. A Shire Register of Synergy Users will be prepared to ensure accounts are documented as to when they were requested, approved and de-commissioned.

4. IT Governance - Standards, Policies & Procedures

Finding

We identified that there are no formal policies, procedures, guidelines or governance documents defined for the following key IT functional areas or processes:

- IT Security Acceptable Use;
- Identify and Access Management; and
- Business Continuity Plan.

Further, we noted that the IT strategy has not been defined and planning is performed on an ad hoc basis informally.

Rating: Significant Implication

Without appropriate and defined IT governance structures and processes the Shire may not be able to:

- Effectively align IT with business strategies, increasing the risk of sub-optimal achievement in relation to business plans and initiatives
- Efficiently manage, monitor, and ensure effective outsourced IT systems requirements, functionality, and availability.

Recommendation

The Shire should develop, document, review, approve, and publish missing policies, procedures, guidelines and governance documents as required and ensure that these documents are appropriately governed

- Periodically review and update policies, procedures, guidelines and Governance documents following any relevant internal or external changes
- Developing IT strategy and document decisions made in the IT planning meetings.

Management comment

Periodically review and update policies, procedures, guidelines and Governance documents following any relevant internal or external changes

The IT Officer and Governance, Research, Policy and Grants Manager will develop policies and guidelines to promote sounder approach to IT Security Acceptable Use.

Developing IT strategy and document decisions made in the IT planning meetings

The Manager for IT and IT Officer will document decisions made in IT planning meetings and file these with the Records Officer on a pro-forma form. There are three main areas that the pro-forms IT Planning Meeting forms will cover:

- 1.) Identification of ICT problem/opportunity*
- 2.) Explanation of options available to address problem/opportunity*
- 3.) Recommendation to IT Manager for course of action*

Any acquisition of new ICT equipment will be conducted through the Shire's Procurement Policy. Any disposal of ICT equipment will be recorded with IT/Finance Manager.