ACT Government

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THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT SUBMISSION TO THE *AUDITOR-GENERAL'S REPORT NO. 10 OF 2012: 2011-12 FINANCIAL AUDITS*

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INTRODUCTION

The Auditor-General released the *Auditor-General's Report No. 10 of 2012: '2011-12 Financial Audits'* (the Report) on 21 December 2012.

Qualifications

The Auditor-General issued 67 unqualified reports on agency financial statements. A qualified report was issued to the Environment and Sustainable Development Directorate.

Twenty-eight reports of factual findings were issued on agency statements of performance. Four of these reports were qualified as some accountability indicators were not measured as required by the *Financial Management Act 1996*.

Recommendations

The Auditor-General made 10 recommendations in the Report. A whole of government response has been prepared and provided below to address these recommendations.

Other Issues

The Report notes there was a slight decrease in the quality of the financial statements rated as good/satisfactory from 77 per cent in 2010-11 to 72 per cent in 2011-12.

Four of the 28 reports of factual findings were qualified. It is noted in the report that the decline in the quality of the statements of performance is due to an accountability indicator being overstated, two indicators in two agencies were not measured, and there were insufficient records to enable four indicators to be verified.

The Audit Office found the timeliness of financial statements improved from 74 per cent in 2010-11 to 90 per cent in 2011-12 without adversely affecting the overall quality of the statements.

GOVERNMENT POSITION ON RECOMMENDATIONS/FINDINGS

A Government response, and position on the 10 recommendations included in the Auditor-General's Report are outlined below.

Recommendation 1

Agencies should:

- **resolve audit findings in a timely manner and implement processes for monitoring the status of unresolved audit findings; and**
- **refer audit findings in audit management reports to internal audit committees for monitoring and follow-up.**

Government Position

Agreed.

Internal Audit Committees within agencies have existing mechanisms in place to ensure audit findings are monitored and reviewed on a regular basis and resolved in a timely manner.

Additional internal processes are also in place to ensure that audit findings are referred to Internal Audit Committees and tracked until completed.

Recommendation 2

Agencies should improve the quality of their financial statements, giving particular attention to ensuring the information is clear, complete and accurate and complies with applicable reporting requirements.

Government Position

Agreed.

The Auditor-General's Report states that the overall quality of the financial statements slightly decreased in comparison to 2010-11.

Agencies will continue to maintain internal controls and checks to ensure that data provided in the financial statements is accurate and complete. Internal Audit Committees within agencies are responsible for monitoring and reviewing the quality of data and reporting requirements.

Chief Minister and Treasury Directorate (CMTD) will continue to ensure that agencies are aware of the Model Financial Statements publication released each year to assist in complying with reporting requirements.

Recommendation 3

Agencies should improve the quality of their statements of performance. Agencies should ensure that:

- **the systems used to report results are reliable;**
- **reported results are supported by sufficient evidence; and**
- **sufficient explanatory information on each accountability indicator and how it is measured is disclosed in the budget papers and/or statement of intent and statement of performance.**

Government Position

Agreed.

Four qualified reports of factual findings were issued on agency statements of performance due to an accountability indicator being overstated, two indicators in two agencies were not measured, and there was insufficient records to enable four indicators to be verified.

Improving performance measures remains an ongoing process by agencies. Agencies will review performance measures during the Budget and Audit process to improve the relevance and quality of performance indicators and ensure sufficient information and evidence is provided for each indicator.

CMTD publishes a Better Practice Guideline which is available to all agencies to assist in the preparation of statements of performance. This guideline includes the requirement to explain material variances from planned levels of performance.

Territory and Municipal Services Directorate and ACTION will ensure system based information is captured and recorded correctly to ensure accurate information is included in the Statement of Performance.

Environment and Sustainable Development Directorate will review its performance measures to improve their quality to ensure that they are clear and concise and reliably measured.

Justice and Community Services Directorate has started an internal review of performance against all its accountability measures with a view of implementing improved process from 2012-13.

Recommendation 4

Agencies should comprehensively review and improve the usefulness of their accountability indicators and the related targets.

Government Position

Agreed.

Agencies will continue to review and improve performance measures as part of the Annual Budget and Financial Reporting process. CMTD's Better Practice Guideline on Statements of Performance require agencies to provide explanations for accountability indicators where either the terms used or methodology used might be either difficult to understand or open to interpretation. This guideline is reviewed and updated annually.

CMTD's Performance and Accountability Framework also provide further assistance to strengthen the quality of performance indicators.

Recommendation 5

Agencies should ensure their financial statements and statements of performance contain concise and clear explanations of material variances from planned levels of performance.

Government Position

Agreed.

Agencies will continue to ensure that their financial statements and statements of performance contain concise and clear explanations on material variances.

CMTD provides a number of guidelines, including the Performance and Accountability Framework, Better Practice Guidelines on financial statements and statements of performance as stated above. These assist with increasing the quality in explanations of material variances.

Recommendation 6

Agencies should implement approved policies and procedures which require the regular review of audit logs for errors, irregularities and fraudulent changes to systems. The results of this monitoring should be documented and reported to management.

Government Position

Agreed-in-part

Agencies continue to monitor audit logs for the presence of errors and irregularities and report findings to management.

Following planned upgrades of the Oracle Financial System and the Territory Revenue System (TRS), audit logs will be better reviewed, monitored and irregularities reported.

The Education and Training Directorate (ETD) has reviewed this recommendation as part of the Independent Strategic Review and during an internal Information and Communication Technology (ICT) audit.

CMTD does not agree to review audit logs for the TM1 system. TM1 is not the primary system source of financial information. Oracle E-Business Suite is the primary data source and holds transaction level information in the General Ledger. Other appropriate processes are in place to review the integrity of data prior to the upload of data into the Oracle system.

Recommendation 7

Agencies should implement approved policies and procedures governing user access, including procedures for reviewing, establishing, modifying and removing users' access or their assigned roles and privileges to reduce the risk of inappropriate or fraudulent access to critical systems.

Government Position

Agreed.

TRS has a three monthly review of users access and security levels and is subject to current classification and delegation to ensure only current users have access to the system.

Reviews undertaken in ETD have resulted in improvements to key user access security.

CMTD will develop documentation outlining the roles and privileges of user access in the TM1 system. Treasury has a range of existing controls in place that sufficiently mitigate the risk of inappropriate or fraudulent access to critical systems.

Recommendation 8

Agencies should implement approved and tested business continuity plans and/ or disaster recovery procedures for key systems.

Government Position

Agreed.

A number of agencies have agreements with Shared Services ICT to review each business continuity plan and recovery procedures for key systems. If the agencies do not have these in place, they are currently being developed internally.

Agencies currently undertake regular testing of their system's business continuity plan.

Recommendation 9

Agencies should cease the use of generic (shared) user accounts for key systems.

If the use of generic accounts is unavoidable, then the number of generic accounts should be kept to minimum and passwords regularly changed. A generic user accounts register should be established to monitor and track users who have access to generic user accounts, and how often the passwords for the generic accounts are changed.

Government Position

Agreed-in-part.

Recent upgrades to major software applications have improved and will continue to enhance agencies internal controls over applications.

Generic accounts in TRS are kept to a minimum with user access tracked.

CMTD will review the number of generic accounts used to access the TM1 system. However, the Directorate believes sufficient internal controls such as limited timeframes for access, data integrity and reconciliation processes exist which mitigate the risk of inappropriate use.

Recommendation 10

Agencies should enforce the use of complex passwords to better control access to critical systems.

Government Position

Agreed.

Shared Services ICT performs yearly audits of password complexity as required by the ACT Government password standards. This will continue on an annual basis. Systems that contain personnel or financial data have increased security measures in place.

Where generic passwords are used for specific applications (such as Homenet), these are managed and monitored internally by Shared Services ICT. Many of these applications are also only available to specific users following their log-in to the ACT Government network.

Security options in the TRS will be considered following a system upgrade, which is currently underway.

CMTD will review the current level of password complexity used to access the TM1 system.