STANDING COMMITTEE ON PUBLIC ACCOUNTS

Review of Auditor-General's Report No. 5 of 2011: *2010–11 Financial Audits*

JULY 2012

Report 28

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Resolution of appointment

The ACT Legislative Assembly appointed the Standing Committee on Public Accounts on 9 December 2008 to:

(1) examine:

a) the accounts of the receipts and expenditure of the Australian Capital Territory and its authorities; and

b) all reports of the Auditor-General which have been presented to the Assembly;

(2) report to the Assembly any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(3) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(4) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue.[1]

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[1] Legislative Assembly for the ACT, *Minutes of proceedings,* No. 2, 9 December 2008, pp. 12–13.

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RECOMMENDATIONS

RECOMMENDATION 1

3.12 The Committee recommends that the ACT Government ensure that all directorates and agencies comply with the Treasury Directorate's whole-of-government reporting timetable to ensure that the Territory's financial statements are completed and audited within the timeframe required by the *Financial Management Act 1996*.

RECOMMENDATION 2

3.18 The Committee recommends that, in future, the implementation of major alterations to the responsibilities of directorates and agencies should be aligned with the end of a financial year reporting period in order to minimise the complexity of subsequent reporting arrangements.

RECOMMENDATION 3

3.28 The Committee recommends that all ACT Government directorates and agencies should prioritise as a matter of urgency an assessment of the adequacy of controls over their respective IT systems and applications. This should include consideration of the controls that affect the reliability of all IT systems and applications (general controls) and controls that are specific to each application (application controls).

RECOMMENDATION 4

3.31 The Committee recommends that all ACT Government directorates and agencies should have effective practices and processes in place to review all reports of the Auditor-General, and to assess the relevance of the findings and recommendations to their agency, regardless of whether the agency was involved in a specific audit.

1 INTRODUCTION AND CONDUCT OF INQUIRY

1.1 The ACT Auditor-General's Office (Audit Office) issues independent audit reports on the financial statements and reports of factual findings on the statements of performance of ACT Government agencies and those entities in which the ACT Government has a direct financial interest. These reports are included in the annual reports of agencies and other entities and tabled in the ACT Legislative Assembly (the Legislative Assembly).[2]

1.2 With regard to the legislative basis for this annual program of financial audits and reviews of statements of performance, the *2010–11 Financial Audits* report (the Audit report) notes:

> The Audit Office completes an annual program of financial audits under a range of legislative and other requirements. Most audits are required by the *Financial Management Act 1996*, however, many are performed pursuant to other requirements, such as those contained within the *Corporations Act 2001*, joint venture agreements, trust fund deeds and Commonwealth Government funding agreements.
>
> The Audit Office also reviews statements of performance prepared by directorates and authorities as required by the *Financial Management Act 1996*.[3]

1.3 The Audit report provides a summary of the results of this annual program of audits of financial statements and reviews of statements of performance for 2010–11 and an assessment of the quality and timeliness of reporting by agencies. It also provides a summary of major audit findings and details on progress made by agencies on addressing findings made in previous audits.[4]

1.4 The Audit Office produces similar summary reports on the results of its financial audits and reviews of statements of performance on a yearly basis.

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[2] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, p. 3.

[3] *Ibid.*, p. 12.

[4] *Ibid.*, p. 3.

1.5 The *2010–11 Financial Audits* report was presented to the Speaker on 21 December 2011.[5]

1.6 In accordance with the resolution of appointment of the Standing Committee on Public Accounts (the Committee), the Audit report was referred to the Committee for examination.[6]

Terms of reference

1.7 The Committee's terms of reference were to examine the Audit report and report to the Legislative Assembly.

Conduct of inquiry

1.8 On 9 February 2012 the Committee received a briefing from the Auditor-General on the Audit report.

1.9 The Committee received a submission from the Government in relation to the findings of the Audit report.[7] The Government submission is attached at **Appendix A** and can also be downloaded from the Committee's website.[8]

1.10 As noted previously, under its resolution of appointment, the Committee examines all reports of the Auditor-General which have been presented to the Legislative Assembly. The Committee has established procedures for its examination of these reports.[9] In accordance with these procedures, the Committee resolved on 10 July 2012 to inquire further into the Audit report.

1.11 The Committee met on 31 July 2012 to discuss the Chair's draft report. The Committee's draft report was adopted on 31 July 2012.

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[5] The Audit report was presented to the Legislative Assembly itself at the first available sitting day following its forwarding to the Speaker. This occurred on 14 February 2012(Legislative Assembly for the ACT, *Minutes of proceedings*, No. 133, 14 February 2012, p. 1726).

[6] Legislative Assembly for the ACT, *Minutes of proceedings*, No. 2, 9 December 2008, pp. 12–13.

[7] ACT Government submission, dated 2 March 2012.

[8] http://www.legassembly.act.gov.au/committees/index1.asp?committee=116

[9] Available at: http://www.parliament.act.gov.au/committees/AGReports.asp

Structure of the report

1.12 The Committee's report is divided into four sections:

- Chapter 1—Introduction and conduct of inquiry
- Chapter 2—Audit results
- Chapter 3—Committee comment
- Chapter 4—Conclusion

Acknowledgements

1.13 The Committee thanks those who contributed to its inquiry, including the Auditor-General for providing a briefing on the Audit report and the Treasurer for providing the Committee with a submission on the Audit report findings.

2 AUDIT RESULTS

2.1 The Audit report addresses the following themes: results of the financial audit program; audit findings; computer information systems; the Territory's financial statements; and audit results and findings on ACT Government agencies and other entities. The Audit report provides summaries of the key issues addressed under each theme, which are reproduced below.[10]

2.2 The audit results and findings for each ACT Government agency or other entity, along with responses by the relevant agency or entity, are presented under this theme. The key issues presented by each audit are listed separately by agency or entity.[11]

Major results

Results of the audits of financial statements

The Audit Office audited 76 financial statements during the 2010-11 financial audit program. No qualified audit reports were issued.

The Audit Office was unable to issue audit reports on the financial statements of two new territory authorities (the ACT Compulsory Third-Party Insurance Regulator and ACT Teacher Quality Institute) during 2010-11 as these authorities did not prepare the financial statements required by the *Financial Management Act 1996*.[12]

Results of the reviews of statements of performance

The Audit Office issued 30 reports of factual findings on agencies' statements of performance.

The Audit Office qualified two reports of factual findings because some accountability indicators had not been measured as required by the *Financial Management Act 1996*.

The Audit Office was unable to issue reports of factual findings on the statements of performance of two new territory authorities (the ACT Compulsory Third-

[10] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, pp. 3–10.

[11] *Ibid*., pp. 62-140.

[12] *Ibid*., p. 12.

Party Insurance Regulator and ACT Teacher Quality Institute) during 2010-11 as these authorities did not prepare statements of performance as required by the *Financial Management Act 1996*.[13]

Audit findings

2.1 The Audit provided key findings to support its conclusions in relation to the major results as outlined above. The main elements of these findings—across four audit themes—are reproduced below.

Status of audit findings

Agencies were, in most cases, addressing previously reported weaknesses in their governance arrangements, internal controls and reporting practices.

In 2010-11, agencies resolved 126 (66 percent) of the audit findings reported in previous years compared to 201 (75 percent) in 2009-10. Agencies also partially resolved 46 (24 percent) of the previously reported audit findings; up from the 24 (9 percent) resolved in 2009-10.

However, some agencies need to implement better processes for addressing audit findings in a timely manner as many previously reported audit findings were not resolved (10 percent) or were only partially resolved (24 percent).

Several internal control weaknesses in major revenue applications were not fully resolved.[14]

Financial and performance reporting

Quality of financial statements

The percentage of financial statements submitted for audit that were rated as 'good' increased from 46 percent in 2009-10 to 55 percent in 2010-11. The percentage of 'satisfactory' financial statements decreased from 37 percent in 2009-10 to 22 percent in 2010-11. This results in a combined percentage of financial statements rated as 'satisfactory' and 'good' decreasing slightly from 83 percent in 2009-10 to 77 percent in 2010-11. The percentage of financial statements rated as unsatisfactory in 2010-11 (12 percent) was unchanged from 2009-10.
These results indicate that in general the overall quality of financial statements submitted for audit did not change significantly compared to the previous year. This was notwithstanding that several agencies had limited time to account for

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[13] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, p. 12.

[14] *Ibid*., p. 21.

the effects of a major restructuring of administrative arrangements that occurred on 17 May 2011.[15]

Quality of statements of performance

The quality of statements of performance declined significantly in 2010-11. The percentage of agencies that prepared 'good' statements of performance declined from 55 percent in 2009-10 to 43 percent in 2010-11. The percentage of unsatisfactory statements increased from 7 percent in 2009-10 to 30 percent in 2010-11.

This significant decline in quality was caused by several directorates not effectively addressing the effects of the major restructuring of administrative arrangements on 17 May 2011 when preparing their statements of performance. In 2010-11, as in previous years, there were several instances where accountability indicators provided limited useful information about the planned and actual performance of agencies.

Information included in the budget papers did not always provide sufficient insight into the planned levels of performance. Where planned levels of performance are not clearly defined and adequately explained in agencies' budget papers, it is less likely that agencies can be held accountable for their performance.[16]

Timeliness of financial statements and statements of performance

The percentage of agencies that complied with the Treasury Directorate's whole-of-government reporting timetable declined from 94 percent in 2009-10 to 79 percent in 2010-11. This is the reverse of the positive trend achieved in recent years of improved compliance with this timetable.

In some cases where the timetable was not complied with, the financial statements were provided to the Audit Office long after the due date. Where this occurs, there is a significantly higher risk that the audit of the financial statements for these agencies will not be completed in time for agencies to meet the reporting deadlines.

[15] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, p. 21.

[16] *Ibid.*, p. 22.

In 2010-11, 78 percent of reporting agencies provided their statements of performance to the Audit Office within the timeframe required by the Treasury Directorate's whole-of-government timetable. This result is well below the 91 percent of agencies that complied with the timetable in 2009-10. Despite this, in most cases, late agencies provided their statements of performance to the Office shortly after the due date.

Agencies need to improve their compliance with the Treasury Directorate's whole-of-government timetable to provide assurance that the Territory's financial statements will be completed and audited within the earlier legislative reporting timeframes which will apply in 2011-12 which is an election year.

Several statements of performance that were provided to the Audit Office within the timeframes required by the Treasury Directorate's whole-of-government timetable were of poor quality and had to be revised.[17]

Annual reporting

In 2010-11, all agencies placed their annual reports on the relevant website by the date required by the *Annual Reports (Government Agencies) Act 2004*.
All agencies included the correct version of their financial statements and statement of performance in the printed and electronic (website) version of their annual report.[18]

Budget management

The Territory and the majority of its directorates and authorities operated within their budgets.[19]

Computer information systems

Computer information systems environment

Controls implemented by Shared Services over the computer information system environment were assessed to be generally satisfactory, however, several control weaknesses were identified.

Documentation supporting the review of privileged user[20] access, audit logs for Unix servers and firewall rules[21] changes was often not retained. This increases

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[17] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, pp. 22-23.

[18] *Ibid.*, p. 22.

[19] *Ibid.*

[20] 'Privileged users' are users that have the capacity to perform powerful system administration and other high level functions.

[21] 'Firewalls' are used to protect the ACT Government network, its applications and data from users on external networks (e.g. internet). Firewalls also provide protection against hackers, malicious intruders and viruses. 'Firewall rules' are rules that control access to the ACT Government network through the ACT Government firewalls.

the risk of inappropriate or unauthorised access or changes to critical applications and data.

The ACT Government's password complexity requirements[22] were not fully enforced, some passwords were not 'forced' to be regularly changed, user access levels were not regularly monitored, and some critical 'patches'[23] were not applied. This increases the risk of unauthorised, inappropriate and undetected access to the ACT Government network, firewalls, applications and data. Many key IT policies, plans and procedures were out of date, including Shared Services' risk management and strategic plans.

The interim InTACT Business Continuity Plan has not been finalised or recently tested. In the event of a disaster or other disruption, this increases the risk that critical applications may not be recovered, operations may not be promptly resumed, and critical data may be lost.

Controls which restrict access to data centres need to be strengthened to prevent unauthorised access to these centres.[24]

Controls for key applications

Application controls for Oracle Financials, Chris21, rego.act and Receipting Accounting and Payments System (RAPS) were assessed to be generally satisfactory.

Weaknesses exist in controls over Homenet, Territory Revenue System, ENTA[25] and MyWay.

Progress by agencies in addressing previously reported control weaknesses varied.

Controls over user access were improved for Chris21, Homenet, Territory Revenue System and rego.act.

Many agencies are not performing regular reviews of audit logs of users' activities. Accidental or fraudulent changes to critical applications and data are less likely to be promptly identified when these reviews are not regularly performed.

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[22] The ACT Government's password complexity standard requires passwords to contain a combination of lower and upper case letters, numbers and special characters.

[23] Patches are provided by the vendor of an application to improve the operation and security of the application. Security patches improve access controls by addressing known weaknesses in the system.

[24] ACT Auditor General's Office, Report No. 5 of 2011: *2010-11 Financial Audits*, December, p. 33.

[25] ENTA—a recently implemented theatre ticketing system used by the Cultural Facilities Corporation.

Password settings for Oracle Financials, Territory Revenue System and Homenet need to be improved to minimise the risk of unauthorised or fraudulent access to these applications and data. Users were able to use simple (non-complex) passwords to gain access to these applications and data.

Generic (shared) user accounts were being used to access Homenet and MyWay. In relation to ENTA, a generic administrator account is used by the administrator to provide systems support. The use of such accounts restricts management's ability to trace unauthorised or fraudulent activities to an individual user. Regular reviews of user access were not performed for Oracle Financials, MAZE, Community2008, Homenet, MyWay and ENTA. This presents a higher risk of unauthorised or fraudulent access to these applications and data.

Policies and procedures for managing changes to MAZE, MyWay and ENTA have not been implemented. This presents a higher risk of inadequately tested, untested or fraudulent changes being introduced into these applications. Business continuity and disaster recovery arrangements for Homenet, Community2008, Territory Revenue System and ENTA need to be improved to provide assurance that these applications will be restored and operations promptly resumed without the loss of critical data in the event of a disaster or other disruption.[26]

The Territory's financial statements

Audit report

The Audit Office issued an unqualified audit report on the Territory's 2010-11 Consolidated Annual Financial Statements.[27]

Financial results

Net operating balance

The Territory's net operating balance, a surplus of $1 million, compares favourably to the budgeted deficit of $247 million. This mainly reflects higher than budgeted revenue, in particular, other revenue and taxation revenue. The Territory's surplus net operating balance of $1 million was less than the prior year's surplus balance of $115 million. This decline resulted from an increase in expenses of $248 million (6.4 percent), which exceeded the growth in revenue of $134 million (3.4 percent).

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[26] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, pp. 33–34.

[27] *Ibid*., p. 44.

The Territory estimates that it will incur deficits in its net operating balance over the forward years. These estimated deficits are anticipated to decline from $210 million in 2011-12 to $64 million in 2014-15.[28]

Operating result

The Territory's operating surplus of $123 million exceeded the budgeted surplus of $25 million. This was mostly due to the better than expected net operating balance, partially offset by less than expected gains in the market values of land sold and investments held for superannuation and other purposes.
The Territory's operating surplus for 2010-11 of $123 million was less than the prior period's surplus of $390 million. This mostly reflects decreased gains in market values of investments, land sold and a decline in the net operating balance.

The Territory has budgeted for operating surpluses ranging from $99 million to $261 million over the forward years. The achievement of these surpluses depends on the Territory obtaining sufficient gains from investment and property markets to counter the estimated deficits in the net operating balance over the forward years.[29]

Revenue

The Territory's revenue ($4 118 million) exceeded the budgeted amount ($3 890 million) and prior year's amount ($3 984 million) by $228 million (5.9 percent) and $134 million (3.4 percent) respectively. This mainly reflects increases in other revenue and taxation revenue.[30]

Expenses

The Territory's expenses ($4 117 million) were close to the budgeted expense ($4 137 million).

The Territory's expenses ($4 117 million) exceeded the previous year's amount ($3 869 million) by $248 million (6.4 percent). This increase reflects higher employee expenses, increases in the cost of land sales and borrowing costs.[31]

Financial position

The Territory's assets ($21 735 million) exceeded the budgeted amount ($21 257 million) by $478 million (2.2 percent). This reflects higher than expected investment balances resulting mainly from delays in the purchase and construction of major capital assets, and upward revaluations of property, plant and equipment.

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[28] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, p. 44.

[29] *Ibid*.

[30] *Ibid*., p. 45.

[31] *Ibid*.

> The Territory's liabilities ($5 525 million) were $470 million (9.3 percent) higher than the budgeted amount ($5 055 million). This was mainly a result of higher than anticipated growth in the unfunded superannuation liability, partially offset by lower than expected borrowings used to fund major water security projects.[32]

Short-term financial position

> The Territory's short-term financial position remains strong and is stronger than anticipated in the budget.
>
> The Territory's short-term financial position is estimated to remain strong over the forward years.[33]

Long-term financial position

> The Territory's long-term financial position was slightly better than anticipated in the budget. However, this position has weakened significantly in recent years, with unfunded liabilities increasing by $1 054 million or an average of 21.5 percent per annum since 2009.
>
> The Territory's long-term financial position is estimated to weaken over the forward years as further borrowings are anticipated to fund the Territory's capital assets program, in particular, major water security projects.[34]

Cash results

> The net cash surplus generated by the Territory's operations ($652 million) remained strong and was much higher than the cash surplus anticipated in the budget ($403 million).
>
> The net cash surplus generated by the Territory's operations ($652 million) decreased by $125 million (16.1 percent) from the previous year's amount ($777 million). This mainly reflects higher employee costs, the cost of land sales and borrowing costs.
>
> The Territory's net cash deficit from operating and capital activities ($337 million) was $517 million (60.5 percent) below the budgeted deficit ($854 million). This resulted from the higher than expected net cash surplus from operations and lower than expected spending on the Territory's capital assets program.
>
> The Territory's cash deficit from operating and capital activities ($337 million) significantly exceeded the previous year's deficit ($82 million) due to a reduction in the net cash surplus from operations and increased spending on the Territory's capital assets program.

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[32] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December 2011, p. 45.

[33] *Ibid*.

[34] *Ibid*.

The Territory is expecting cash deficits from operating and capital activities over the next two years due mainly to planned spending on the Territory's capital assets program.[35]

Capital assets

Planned capital assets funding was underspent by $158 million (19.3 percent) in 2010-11. However, the level of underspending was much less than that experienced previously. As in prior years, most of this underspending was due to delays in completing infrastructure and building projects.[36]

Audit recommendations

2.2 The Auditor-General made **12** recommendations, which are reproduced in full at **Appendix B**. The following table provides a summary of the recommendations across the primary audit themes:

Audit theme	Recommendation coverage
Results of the financial audit program	R1—Timely resolution of audit findings
	R2—Compliance with Treasury Directorate's whole-of-government reporting timetable
	R3—Improving quality of financial statements
	R4—Improving quality of statements of performance
	R5—Legal instruments prepared under section 19D of the *Financial Management Act 1996* and accountability indicators
	R6—Review of usefulness of accountability indicators and related targets
Computer information systems	R7—Regular monitoring of audit logs
	R8—Regular monitoring of access rights to applications and data
	R9—Password standards
	R10—Generic user accounts
	R11—Change management, user access and administration, business continuity and disaster recovery policies
	R12—Regular testing of business continuity and disaster recovery procedures

35 ACT Auditor General's Office, Report No. 5 of 2011: *2010-11 Financial Audits*, December, pp. 45-46.

36 *Ibid*., p. 46.

Government response to recommendations

2.3 In its submission to the Committee's inquiry, the ACT Government stated that it agreed to recommendations 1 to 8 and 11 to 12, and agreed in principle to recommendations 9 and 10.[37]

2.4 With regard to recommendation 9 concerning the quality of passwords, the Government submission stated:

> Shared Services ICT performs yearly audits of password complexity as required by the ACT Government password standards. This will continue on an annual basis.
>
> 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 Territory Revenue System will be considered following a system upgrade.[38]

2.5 With regard to recommendation 10 concerning the use of generic user accounts, the Government submission stated:

> Recent upgrades to major software applications have improved and will continue to enhance agencies internal controls over applications.
>
> As noted in recommendation 9, generic user accounts for the Homenet system are managed and monitored internally and by Shared Services ICT.
>
> Security options in the Territory Revenue System will be considered following a system upgrade.[39]

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[37] ACT Government submission, dated 2 March 2012.

[38] *Ibid*., p. 8.

[39] *Ibid*.

3 COMMITTEE COMMENT

Inquiry context

3.1 The Audit report provides a summary of the results of the annual program of audits of financial statements and reviews of statements of performance for 2010–11 and an assessment of the quality and timeliness of reporting by agencies. It also provides a summary of major audit findings and details on progress made by agencies on addressing findings made in previous audits.

3.2 In considering the Audit report and its findings, the Committee is of the view that three substantive areas warrant further comment—(i) quality and timeliness of reporting by agencies; (ii) information technology governance; and (iii) practices and processes agencies have in place to review reports of the Auditor-General. Comment against each of these areas is set out below.

Quality and timeliness of reporting by agencies

3.3 It has been the annual practice of the Committee throughout the 7th Legislative Assembly to consider in its report on annual reports the findings of the applicable report on financial audits. The Committee reiterates the comments and recommendations it made in relation to the Audit report as part of its report on 2010–11 annual reports. This included coverage on: (i) inclusion of correct versions of audited documents; (ii) timeliness of financial reporting processes; (iii) quality of statements of performance; and (iv) usefulness of performance measures.

3.4 Given the significance of the impact of the new directorate structure and 'One ACT Public Service' model on administrative arrangements and reporting by government agencies[40], the Committee restates two matters

[40] On 3 September 2010, the former Chief Minister, Jon Stanhope, announced that Dr Allan Hawke AC had been appointed to review the structure and capacity of the ACTPS (Stanhope, J. (2010) Media release: 'Dr Allan Hawke AC to review ACT public-sector structures, capacity', 3 September). The proposal for a single department model was adopted by the Government on 24 March 2011 and took effect from 17 May 2011 (Gallagher, K. (2011) Media release: 'New ministerial arrangements', 17 May).

previously raised in its report on annual reports on the basis of their potential to impact on the quality and timeliness of reporting.

3.5 The report of the independent review—*Governing the City State: One ACT Public Service*—was released on 15 February 2011. The Report recommended the establishment of a directorate structure with a single department or agency, of nine directorates, oversighted by a new ACTPS Strategic Board, as the basis for the administrative structure of the ACTPS.[41]

3.6 The proposal for a single department model was adopted by the Government on 24 March 2011 and took effect from 17 May 2011.[42]

3.7 The Committee reminds responsible directorates and agencies of the importance of ensuring timeliness of financial reporting processes and preparation of quality statements of performance.

Timeliness of financial reporting processes

3.8 The Treasury Directorate issues a whole-of-government reporting timetable each year. The Auditor-General states that agencies must comply with this timetable to ensure that:

- they comply with applicable legislative annual reporting deadlines; and
- the Territory's financial statements are completed and audited within the timeframe required by the *Financial Management Act 1996*.[43]

3.9 The Committee notes with concern the Auditor-General's finding that only 79 per cent of agencies complied with the Treasury Directorate's whole-of-government reporting timetable in the 2010–11 reporting period. This is a decline from the 94 per cent compliance rate in 2009–10 and furthermore, a small number of agencies provided financial statements that were late and of poor quality.[44]

3.10 In its *Report on Annual and Financial Reports 2009–10*, the Committee noted that agencies had demonstrated improvement in this area over the preceding three

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[41] Stanhope, J. (2011) Media release: 'Changes to ACT Public Service', 24 March 2011.

[42] Gallagher, K. (2011) Media release: 'New ministerial arrangements', 17 May.

[43] ACT Auditor-General's Report No. 5/2011: *2010-11 Financial Audits*, p. 26.

[44] *Ibid*.

reporting periods but also emphasised the importance of continued vigilance by all agencies to ensure that a high-level of compliance is maintained.[45]

3.11 The Committee reiterates the importance of compliance with the Treasury Directorate's timetable and emphasises the following comment by the Auditor-General:

> Agencies need to improve their compliance with Treasury Directorate's whole-of-government timetable to provide assurance that the Territory's financial statements are completed and audited within the earlier legislative reporting timeframes which will apply in 2011-12 which is an election year.[46]

RECOMMENDATION 1

3.12 **The Committee recommends that the ACT Government ensure that all directorates and agencies comply with the Treasury Directorate's whole-of-government reporting timetable to ensure that the Territory's financial statements are completed and audited within the timeframe required by the *Financial Management Act 1996*.**

Quality of statements of performance

3.13 Pursuant to the *Financial Management Act 1996*, directorates and authorities are required to prepare statements of performance that set out their results against planned performance targets.

3.14 The Committee notes with concern the Auditor-General's finding that the quality of statements of performance declined significantly in 2010–11, including a large increase in the percentage of statements deemed to be unsatisfactory from 7 per cent in 2009–10 to 43 per cent in 2010–11.[47]

3.15 The Auditor-General explained:

> This significant decline in quality was caused by several directorates not effectively addressing the effects of the major restructuring of administrative arrangements on 17 May 2011 when preparing their statements of performance. In particular, these directorates did not ensure their statements of performance correctly reflected the instruments prepared under section 19D of the Financial

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[45] Standing Committee on Public Accounts, *Report on Annual and Financial Reports 2009-10*, April 2011, p. 11.

[46] ACT Auditor-General's Report No. 5/2011: *2010-11 Financial Audits*, p. 27.

[47] *Ibid*.

> Management Act 1996 to amend targets for accountability indicators when functions transferred between the relevant directorates.[48]

3.16 In its *Report on Annual and Financial Reports 2009-10* the Committee noted that agencies had demonstrated improvements in the quality of their statements of performance over the preceding three reporting periods but also emphasised the importance of continued vigilance by all agencies to ensure that this quality is sustained.[49]

3.17 While the Committee recognises the administrative complexities generated by the introduction of the directorate structure, it also draws the attention of agencies to the following comment of the Auditor-General:

> Statements of performance become less useful when the period covered by the targets for accountability indicators are not consistent with the period covered by actual results (i.e. the period that the directorates have responsibility for the relevant functions).[50]

RECOMMENDATION 2

3.18 **The Committee recommends that, in future, the implementation of major alterations to the responsibilities of directorates and agencies should be aligned with the end of a financial year reporting period in order to minimise the complexity of subsequent reporting arrangements.**

Information technology governance

3.19 In the present era of e-government, information systems and their applications represent a significant aspect of an agency's internal control structure. Information technology (IT) governance practices, including the IT control environment, are reviewed during the financial statement audit process.

3.20 This includes an assessment of the adequacy of controls over IT systems and applications as these systems and applications are used to generate agencies'

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48 ACT Auditor-General's Report No. 5/2011: *2010-11 Financial Audits*, pp. 27-28.

49 ACT Standing Committee on Public Accounts, *Report on Annual and Financial Reports 2009-10*, April 2011, p. 12.

50 ACT Auditor-General's Report No. 5/2011: *2010-11 Financial Audits*, p. 28.

financial reports and statements of performance.[51] This assessment should include consideration of the controls that affect the reliability of all IT systems and applications (general controls) and controls that are specific to each application (application controls).[52]

3.21 The Committee notes that a number of reports of the Auditor-General, amongst other things, have identified significant control weaknesses in relation to key applications including: ICT security, password controls, the restriction of access by users; monitoring of activities through the use of audit logs; and back up and restoration arrangements.

3.22 The Committee also notes that the reports on 2009–10 and 2010–11 financial audits raised issues in relation to IT control environments, including security, and made applicable recommendations.[53]

3.23 Given the increasing reliance on information systems as part of the e-government environment, the Committee emphasises the importance of a strong internal control environment in relation to:

- *IT access controls*—to reduce the risk of fraudulent or malicious access to applications and data by unauthorised users.
- *The monitoring of IT activities*—regular monitoring of audit logs enables detection of accidental or fraudulent changes to applications or data. Monitoring can also be used to identify and remedy errors.
- *IT recovery and restoration arrangements*—the effectiveness of recovery or restoration arrangements cannot be verified without testing of the processes used to restore the backup data. Where such testing is not performed there is a higher risk of data not being recoverable or significant delays being experienced in the restoration of operations following a significant business disruption.

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[51] ACT Auditor-General's Report No. 8 of 2008: *2007-08 Financial Audits*, p. 31.

[52] *Ibid*.

[53] ACT Auditor-General's Report No. 5 of 2011: *2010-11 Financial Audits;* ACT Auditor-General's Report No. 10 of 2010: *2009-10 Financial Audits.*

3.24 As to the importance of a robust IT operating environment in the contemporary public sector, the former Commonwealth Auditor-General, Pat Barrett commented that:

> While there have been improvements in agencies' control environments over the years, there are ongoing issues with legacy systems and/or new systems implementation, including concerns about security and business continuity arrangements. There is still inconsistent application and execution of sound practice approaches for both elements, including fraud control management. Basic matters such as password protection, and more broadly, management of user and systems access, as well as IT security and change controls, raise questions about assurance that agencies have appropriate information systems controls in place. In short, the same issues have to be revisited year after year.[54]

3.25 The Committee considers that the e-government environment, with its increasing adoption of new technologies coupled with an increasing reliance on IT computing and communications, requires agencies to: (i) have in place appropriate information system controls; and (ii) ensure that these are regularly monitored and corrective action is taken when necessary.

3.26 Further, the Committee stresses that whole-of-government approaches to program or service delivery, including cross-agency cooperation, data-sharing and linked performance, demand that agencies ensure that appropriate IT controls are in place and kept current.[55]

3.27 Furthermore, in the context of ongoing findings that weaknesses are present in IT control environments, as identified in various financial audit reports, and more recently, in audit reports on whole-of-government information and communication technology security management and services[56] and emergency department performance information[57], the Committee is strongly of the view that all government directorates and agencies should prioritise as a matter of urgency an assessment of the adequacy of controls over their respective IT systems and applications.

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[54] Barrett, P. (2006) 'Risk and control: Paradigm or paradox?', *Neil Walker Memorial Lecture*, CPA Australia Victorian Congress, 18 October, Melbourne, p. 20.

[55] *Ibid*., p. 21.

[56] Auditor-General's Report No. 2 of 2012: *Whole-of-Government Information and Communication Technology Security Management and Services.*

[57] Auditor-General's Report No. 6 of 2012: *Emergency Department Performance Information.*

RECOMMENDATION 3

3.28 **The Committee recommends that all ACT Government directorates and agencies should prioritise as a matter of urgency an assessment of the adequacy of controls over their respective IT systems and applications. This should include consideration of the controls that affect the reliability of all IT systems and applications (general controls) and controls that are specific to each application (application controls).**

Practices and processes agencies have in place to review reports of the Auditor-General

3.29 The Committee is firmly of the view that all government directorates and agencies should have practices and processes in place to review all reports of the Auditor-General, and to assess the relevance of the findings and recommendations to their agency, regardless of whether the agency was involved in a specific audit.

3.30 Given ongoing issues with regard to the IT control environments across government directorates and agencies are continually being highlighted, the Committee questions whether agencies have appropriate practices in place to review reports of the Auditor-General and, if they are in place, has serious concerns about whether they are being implemented effectively.

RECOMMENDATION 4

3.31 **The Committee recommends that all ACT Government directorates and agencies should have effective practices and processes in place to review all reports of the Auditor-General, and to assess the relevance of the findings and recommendations to their agency, regardless of whether the agency was involved in a specific audit.**

4 CONCLUSION

4.1 The Committee is strongly of the view that the Auditor-General's annual report on financial audits—the Audit report—is valuable as it provides an independent opinion on the results of the annual program of audits of financial statements and reviews of statements of performance for 2010–11 together with an assessment of the quality and timeliness of reporting by agencies. It also provides a summary of major audit findings and details on progress made by agencies with regard to addressing findings made in previous audits.

4.2 An independent opinion is essential to ensure an appropriate level of accountability to the Legislative Assembly and the ACT community for public finances and performance.

4.3 Independent opinions as provided in the Auditor-General's annual report on financial audits form an integral part of an effective system of accountability for the stewardship of public funds, for how those funds are spent, and the quality of decision making that underpins that spending.

4.4 The Committee has made **four** recommendations in relation to its report inquiring into Auditor-General's Report No. 5 of 2011: *2010–11 Financial Audits*.

Caroline Le Couteur MLA

Chair

31 July 2012

APPENDIX A: ACT Government submission

Attached is a copy of the Government submission to the Standing Committee on Public Accounts in response to the Audit report.

ACT
Government

2012

THE LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT SUBMISSION TO THE
AUDITOR-GENERAL'S REPORT NO. 5 OF 2011:
2010-11 FINANCIAL AUDITS

30·3·12
Authorised for publication

Presented By:
Andrew Barr MLA
TREASURER

INTRODUCTION

The Auditor-General released the Auditor-General's Report No. 5 of 2011: '2010-11 Financial Audits' (the Report) on 21 December 2011.

Qualifications

The Auditor-General issued 76 unqualified reports on agency financial statements. No qualified reports were issued.

Thirty reports of factual findings were issued on agency statements of performance. Two 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 12 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 no significant change in the quality of the financial statements, however, the quality of the statements of performance declined significantly as compared to the previous year.

The percentage of financial statements rated as 'good' increased from 46 per cent in 2009-10 to 55 per cent in 2010-11 and the percentage of statements of financial performance decreased from 55 per cent in 2009-10 to 43 per cent in 2010-11.

It is noted in the report that this significant decline in the quality of the statements of performance was caused by the complexity in reflecting and addressing the impacts and effects of the major restructuring of administrative arrangements on 17 May 2011, so close to the end of the financial year, including the consolidation and creation new directorate and substantial asset, function and financial transfers across government.

All agencies placed their annual reports on relevant websites within legislated timeframes.

GOVERNMENT POSITION ON RECOMMENDATIONS/FINDINGS

A Government response, and position on the 12 recommendations included in the Auditor-General's Report are outlined below.

Recommendation 1

Agencies should ensure that:

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

Government Position

Agreed.

Internal Audit Committees within agencies have existing mechanisms in place through which they ensure audit findings are monitored 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 ensure that their financial statements and statements of performance are prepared and submitted to the Audit Office within the timeframes required by the Treasury Directorate's whole-of-government reporting timetable.

Government Position

Agreed.

Agencies have internal processes in place to ensure the Treasury whole-of-government timetable is met, including the use of internal work plans and monitoring and tracking the submission of financial statements by Internal Audit Committees.

It is noted that for the 2010-11 financial year, that the revised Administrative Arrangements that took place on 17 May 2011, required a number of agencies to undertake complex transfers of functions, assets and funding, as such some were late in submitting their financial statements.

Recommendation 3

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

Government Position

Agreed.

It should be noted that the Auditor-General's Report states that the overall quality of the financial statements submitted did not change significantly compared to the previous year despite the limited time given to agencies to account for the effects of a major restructuring of administrative arrangements that occurred on 17 May 2011.

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

Treasury continues to ensure that agencies are aware of the Model Financial Statements publication released each year to assist in complying with reporting requirements. Treasury will also continue to provide guidance on specific accounting issues.

Recommendation 4

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

- **the systems used to report results are reliable;**
- **there is sufficient explanatory information on each accountability indicator and how it is measured in the budget papers and/or statement of intent and statement of performance; and**
- **concise and clear explanations of material variances from planned levels of performance are provided.**

Government Position

Agreed.

Two qualified reports of factual findings were issued on agency statements of performance due to performance indicators not being measured in accordance with the *Financial Management Act 1996*.

The Territory and Municipal Services Directorate will be reviewing business processes and systems on an ongoing basis and checking explanatory information and variance analysis for clarity and completeness.

Recent implementation of the new ticketing system will assist ACTION in improving reporting of accountability indicators.

Treasury 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.

Improving performance measures remains an ongoing process by agencies. Annual reviews of performance measures will continue to be undertaken during the annual budget process.

Recommendation 5

Directorates should ensure that the legal instruments prepared under section 19D of the *Financial Management Act 1996* amend the targets for accountability indicators so that they reflect the period that they have responsibilities for the relevant functions. Where necessary, legal advice should be obtained to ensure the instruments have the intended legal effect.

Government Position

Agreed.

Affected Directorates have agreed to improve processes for preparing section 19D instruments.

Subject to passage of legislation, it is proposed that the Treasurer will also be involved in the review and approval process of instruments to amend performance indicators. This is consistent with the processes for other instruments prepared under the *Financial Management Act 1996*. The Treasury Directorate will also ensure a qualitative review of these instruments before they are signed.

Recommendation 6

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. Treasury'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.

The Chief Minister and Cabinet's Directorate's Performance and Accountability Framework also provide further assistance to strengthen the quality of performance indicators.

Recommendation 7

Agencies should regularly monitor audit logs for the presence of errors, irregularities and potential fraudulent changes to key applications and data. The results of this monitoring should be documented and reported to management.

Government Position

Agreed.

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

Individual agencies identified in the Auditor-General's Report have undertaken to improve policies and procedures in relation to the monitoring of audit logs and reporting of irregularities.

Following planned upgrades of the Oracle Financial System, audit logs will be monitored and irregularities reported. Shared Services ICT have also agreed to review the audit logs of the Unix server and Chris21. The findings of these will be documented and reported to management.

Recommendation 8

Agencies should regularly monitor users' rights to access applications and data. The results of this monitoring should be documented and reported to management.

Government Position

Agreed.

Recent upgrades to major software applications have improved agencies' internal application controls.

Since 1 July 2011, regular reviews of privileged user access to the ACT Government network have been taken by Shared Services ICT and reported to management.

Recommendation 9

Agencies should ensure that passwords used to access applications are complex and comply with the ACT Government's password standards.

Government Position

Agreed-in-principle.

Shared Services ICT performs yearly audits of password complexity as required by the ACT Government password standards. This will continue on an annual basis.

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 Territory Revenue System will be considered following a system upgrade.

Recommendation 10

Agencies should cease the use of generic (shared) user accounts to ensure activities by users can be traced to individual users.

Government Position

Agreed-in-principle.

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

As noted in recommendation 9, generic user accounts for the Homenet system are managed and monitored internally and by Shared Services ICT.

Security options in the Territory Revenue System will be considered following a system upgrade.

Recommendation 11

Agencies should develop and implement policies and procedures covering change management, user access and administration, and business continuity and disaster recovery arrangements for all significant computer information systems and applications.

Government Position

Agreed.

Agencies have undertaken to develop policies and procedures, where no policy is in place, and review and enhance existing documentation and processes for change management and user access and administration.

Any changes to business systems across ACT Government agencies are in accordance with Shared Services ICT Change Management policies and procedures and are monitored by ICT Change Management.

Agencies have agreed to establish (where required) and review policies and procedures for change management, user access administration and business continuity.

Shared Services ICT also has a Disaster Recovery Plan that details the recovery of the application's server infrastructure, which will also be reviewed.

Recommendation 12

Agencies should perform regular (annual) testing of their business continuity and disaster recovery procedures.

Government Position

Agreed.

Shared Services ICT will be reviewing and enhancing its existing testing plans during 2011-12.

Individual agencies identified in the Auditor-General's Report have undertaken to improve testing of data backup and recovery.

APPENDIX B: Audit report recommendations

Results of the financial audit program

Recommendation 1—Agencies should ensure that:

- they resolve audit findings in a timely manner and implement processes for monitoring the status of unresolved audit findings; and
- audit findings presented in audit management reports are referred to internal audit committees for monitoring and follow-up.[58]

Recommendation 2—Agencies should ensure that their financial statements and statements of performance are prepared and submitted to the Audit Office within the timeframes required by the Treasury Directorate's whole-of-government reporting timetable.[59]

Recommendation 3—Agencies should improve the quality of their financial statements, giving particular attention to ensuring the information is clear, complete and accurate and complies with any new reporting requirements.[60]

Recommendation 4—Agencies should improve the quality of their statements of performance. Agencies should ensure that:

- the systems used to report results are reliable;
- there is sufficient explanatory information on each accountability indicator and how it is measured in the budget papers and/or statement of intent and statement of performance; and
- concise and clear explanations of material variances from planned levels of performance are provided.[61]

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[58] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, p. 30.

[59] *Ibid*., p. 31.

[60] *Ibid*.

[61] *Ibid*.

Recommendation 5—Directorates should ensure that legal instruments prepared under section 19D of the *Financial Management Act 1996* amend the targets for accountability indicators so that they reflect the period that they have responsibilities for the relevant functions. Where necessary, directorates should obtain legal advice to ensure the instruments have the intended legal effect.[62]

Recommendation 6—Agencies should comprehensively review and improve the usefulness of their accountability indicators and the related targets.[63]

Computer information systems

Recommendation 7—Agencies should regularly monitor audit logs for the presence of errors, irregularities and potential fraudulent changes to key applications and data. The results of this monitoring should be documented and reported to management.[64]

Recommendation 8—Agencies should regularly monitor users' rights to access applications and data. The results of this monitoring should be documented and reported to management.[65]

Recommendation 9—Agencies should ensure that passwords used to access applications are complex and comply with the ACT Government's password standards.[66]

Recommendation 10—Agencies should cease the use of generic (shared) user accounts to ensure activities by users can be traced to individual users.[67]

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62 ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, p. 31.

63 *Ibid*.

64 *Ibid*., p. 43.

65 *Ibid*.

66 *Ibid*.

67 *Ibid*.

Recommendation 11—Agencies should develop and implement policies and procedures covering change management, user access and administration, and business continuity and disaster recovery arrangements for all significant computer information systems and applications.[68]

Recommendation 12—Agencies should perform regular (annual) testing of their business continuity and disaster recovery procedures.[69]

[68] ACT Auditor General's Office, Report No. 5 of 2011*: 2010-11 Financial Audits*, December, p. 43.
[69] *Ibid*.