

REVIEW OF AUDITOR-GENERAL'S REPORTS: No. 7 OF 2014:  
*2013–14 FINANCIAL AUDITS*; AND No. 7 OF 2013: *2012–13*  
*FINANCIAL AUDITS*

STANDING COMMITTEE ON PUBLIC ACCOUNTS

MAY 2015

REPORT 14



## COMMITTEE MEMBERSHIP

### Current Members

Mr Brendan Smyth MLA	Chair from 6 June 2013 Member to 6 June 2013
Ms Mary Porter AM MLA	Deputy Chair
Ms Nicole Lawder MLA	Member from 8 August 2013
Ms Meegan Fitzharris MLA	Member from 10 February 2015

### Former Members

Ms Yvette Berry MLA	Member from 5 August 2014 to 10 February 2015
Dr Chris Bourke MLA	Member to 5 August 2014
Mr Zed Seselja MLA	Chair to 6 June 2013
Mr Alistair Coe MLA	Member from 6 June to 8 August 2013

## SECRETARIAT

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## RESOLUTION OF APPOINTMENT

The Legislative Assembly for the ACT appointed the Standing Committee on Public Accounts on 27 November 2012.

Specifically the resolution of 27 November 2012 establishing the Standing Committees of the 8<sup>th</sup> Assembly, as it relates to the Public Accounts Committee states:

- (1) The following general purpose standing committees be established and each committee inquire into and report on matters referred to it by the Assembly or matters that are considered by the committee to be of concern to the community:
  - (a) a Standing Committee on Public Accounts to:
    - (i) 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;
    - (ii) 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;
    - (iii) 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
    - (iv) examine matters relating to economic and business development, small business, tourism, market and regulatory reform, public sector management, taxation and revenue;<sup>1</sup>

## TERMS OF REFERENCE

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

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<sup>1</sup> ACT Legislative Assembly, *Minutes of Proceedings* No. 2, 27 November 2012, pp. 24–27.



## TABLE OF CONTENTS

Committee membership .....	i
Secretariat .....	i
Contact information .....	i
Resolution of appointment.....	iii
Terms of reference .....	iii
<b>RECOMMENDATIONS.....</b>	<b>VII</b>
<b>1 INTRODUCTION AND CONDUCT OF INQUIRY .....</b>	<b>1</b>
Terms of reference .....	2
Conduct of inquiry.....	2
Structure of the report .....	3
Acknowledgements.....	3
<b>2 AUDIT BACKGROUND AND FINDINGS.....</b>	<b>4</b>
Audit background and objectives.....	4
Audit conclusions .....	4
Audit findings.....	5
Audit recommendations.....	20
<b>3 COMMITTEE COMMENT .....</b>	<b>25</b>
Inquiry context.....	25
Quality and timeliness of reporting in financial statements and statements of performance.....	25
Progress made by agencies in resolving audit findings.....	26
Computer information systems.....	27
Territory financial statements.....	30
<b>APPENDIX A RECOMMENDATIONS OF 2013-14 FINANCIAL AUDITS     REPORT.....</b>	<b>35</b>
<b>APPENDIX B RECOMMENDATIONS OF 2012-13 FINANCIAL AUDITS     REPORT.....</b>	<b>38</b>



## RECOMMENDATIONS

### RECOMMENDATION 1

- 3.4** The Committee recommends that the ACT Government report to the ACT Legislative Assembly, by the last sitting day in September 2015, on the progress and effectiveness of the Government's implementation of the recommendations, made in Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, that have been accepted either in whole or in-part. This should include: (i) a summary of action to date, either completed or in progress (including milestones completed); and (ii) the proposed action (including timetable), for implementing recommendations (or parts thereof), where action has not yet commenced.

### RECOMMENDATION 2

- 3.10** The Committee recommends that ACT Government directorates and agencies prioritise the monitoring and resolution of reported financial audit findings of the Auditor-General.

### RECOMMENDATION 3

- 3.17** The Committee recommends that 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 (environment controls) and controls that are specific to each application (application controls). The Committee further recommends that the Government report back to the Legislative Assembly by the last sitting day in 2015 on these assessments.

### RECOMMENDATION 4

- 3.19** The Committee recommends that ACT Government internal audit committees should: (i) review the roles and responsibilities they have in assuring data security and privacy controls and practices within their respective directorate or agencies; and (ii) regularly monitor and report on these roles and responsibilities to the Strategic Board.

### RECOMMENDATION 5

- 3.28** The Committee recommends that the ACT Government utilise the one-ACT Public Service framework to ensure that unresolved audit findings (relating to environmental controls for information technology) that require a whole-of-government approach are promptly and appropriately addressed.

**RECOMMENDATION 6**

**3.31 The Committee recommends, to the extent that work is not already taking place, that Shared Services ICT update its Contract Management Guidelines to include: (i) current risk management practices used by Shared Services ICT; (ii) regular review of expenditure records to identify new or amended ICT contracts under the responsibility of Shared Services ICT; and (iii) ICT contracts should be reviewed to ensure that the services are being provided at the contracted price.**

# 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 prepared by ACT Government agencies and those entities in which the Government has a direct financial interest. These reports are included in the annual reports of these agencies and other entities and are tabled in the ACT Legislative Assembly (the Legislative Assembly).<sup>2</sup>

1.2 With regard to the legislative basis for this annual program of financial audits and reviews of statements of performance, the 2013–14 financial audit report states:

The Audit Office completes an annual program of financial audits under various legislative and other requirements.

Annual financial statements of directorates and authorities are audited as required by the *Financial Management Act 1996*. Audits are also performed under other requirements such as those contained in the *Corporations Act 2001*, joint venture agreements, trust fund deeds and Commonwealth Government funding agreements.

Statements of performance prepared by directorates and authorities are reviewed as required by the *Financial Management Act 1996*.<sup>3</sup>

1.3 Auditor-General's report No. 7 of 2014: *2013–14 Financial Audits* (the 2013–14 financial audit report) provides a summary of: (i) the results of audits of financial statements and reviews of statements of performance for the reporting periods ending 31 December 2013 and 30 June 2014; and (ii) an assessment of the overall quality and timeliness of reporting by agencies and other entities. It also provides a summary of the major audit findings and information on progress made by agencies and other entities in resolving previously reported findings.<sup>4</sup>

1.4 Auditor-General's report No. 7 of 2013: *2012–13 Financial Audits* (the 2012–13 financial audit report) provides a summary of the results of the audits of financial statements and reviews of statements of performance completed during 2012–13. It also provides an assessment of the overall quality and timeliness of reporting by agencies and other entities. In addition, it includes a summary of the major audit findings and information on progress made by agencies and other entities in resolving previously reported findings.<sup>5</sup>

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<sup>2</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 1.

<sup>3</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 17.

<sup>4</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 1.

<sup>5</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 3.

- 1.5 The 2013–14 and 2012–13 financial audit reports were presented to the Legislative Assembly on 19 December 2014 and 16 December 2013 respectively.
- 1.6 In accordance with the resolution of appointment of the Standing Committee on Public Accounts (the Committee), both reports were referred on 19 December 2014 and 16 December 2013 respectively to the Committee for examination.

## TERMS OF REFERENCE

- 1.7 The Committee's terms of reference were to examine the 2013–14 financial audit report and the 2012–13 financial audit report and report to the Legislative Assembly.

## CONDUCT OF INQUIRY

- 1.8 On 26 February 2015 the Committee received a briefing from the Auditor-General in relation to the 2013–14 financial audit report. In addition, on 18 February 2014 the Committee received a briefing from the Auditor-General in relation to the 2012–13 financial audit report.
- 1.9 The Committee received a submission from the Government in relation to the 2012–13 financial audit report.<sup>6</sup> The Government submission can be downloaded from the Committee's website.<sup>7</sup>
- 1.10 Consistent with a change in Government practice for responding to reports of the Auditor-General (November 2013) no Government submission was provided to the Committee in response to the 2013–14 financial audit report.
- 1.11 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.<sup>8</sup>
- 1.12 In accordance with these procedures, the Committee resolved on 31 March 2015 to conclude its consideration of each audit report with a combined summary report.
- 1.13 The Committee met on 19 May 2015 to discuss the Chair's draft report. The Committee's draft report was adopted on 19 May 2015.

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<sup>6</sup> ACT Government Submission dated 14 March 2014.

<sup>7</sup> [http://www.parliament.act.gov.au/\\_data/assets/pdf\\_file/0011/569639/Gov-sub-AG-Rpt-No-7-of-2013.pdf](http://www.parliament.act.gov.au/_data/assets/pdf_file/0011/569639/Gov-sub-AG-Rpt-No-7-of-2013.pdf)

<sup>8</sup> Please see Standing Committee on Public Accounts, 'Inquiries into referred ACT Auditor-General's reports', available from: [http://www.parliament.act.gov.au/in-committees/standing\\_committees/Public-Accounts](http://www.parliament.act.gov.au/in-committees/standing_committees/Public-Accounts)

## STRUCTURE OF THE REPORT

1.14 The Committee's report is divided into three sections:

- Chapter 1—Introduction and conduct of inquiry
- Chapter 2—Audit background and findings
- Chapter 3—Committee comment

## ACKNOWLEDGEMENTS

1.15 The Committee thanks those who assisted it in the course of its inquiries including the Auditor-General, responsible Minister(s), and directorate and agency officials.

## 2 AUDIT BACKGROUND AND FINDINGS

- 2.1 This chapter presents an overview of the background to, and key findings of, each audit report—2013–14 financial audits and 2012–13 financial audits. In addition, where relevant, comparisons are made with findings across reports.

### AUDIT BACKGROUND AND OBJECTIVES

- 2.2 As stated in each report—the objective of each audit is to provide the Legislative Assembly with an independent audit report:

...containing opinions on the financial statements and reports of factual findings prepared by the ACT Government agencies and those entities in which the ACT Government has a direct financial interest.<sup>9</sup>

- 2.3 The 2013–14 and 2012–13 reports have similar structures and set out findings across five common themes—namely: (i) results of the financial audit program; (ii) audit findings; (iii) computer information systems; (iv) the Territory’s financial statements; and (v) audit results and findings on ACT agencies and other entities.
- 2.4 A summary of audit conclusions and findings for each audit are outlined below.

### AUDIT CONCLUSIONS

- 2.5 The main conclusions of each audit are summarised following.

#### RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS

- 2.6 The Audit Office completed audits of 69 financial statements for 2013–14. The Office issued 64 unqualified audit reports on financial statements prepared by reporting agencies and issued five qualified audit reports.<sup>10</sup> For 2012–13, the Audit Office completed audits of 74 financial statements with nil instances of qualified audit reports.<sup>11</sup>

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<sup>9</sup> ACT Auditor-General’s Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 1; ACT Auditor-General’s Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 3.

<sup>10</sup> The qualified audit reports were issued on the financial statements of the ACT Public Cemeteries Authority and the related Gungahlin Cemetery Perpetual Care Trust, Hall Cemetery Perpetual Care Trust, Woden Cemetery Perpetual Care Trust and Woden Mausoleum Perpetual Care Trust. See ACT Auditor-General’s Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 18.

<sup>11</sup> ACT Auditor-General’s Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 3.

## RESULTS OF THE REVIEWS OF STATEMENTS OF PERFORMANCE

- 2.7 The Audit Office issued 29 reports of factual findings on statements of performance prepared by directorates and authorities in 2013–14. Of these, 27 were unqualified reports of factual findings and two were qualified reports of factual findings.<sup>12</sup> In 2012–13, the Audit Office completed 30 statements of performance and nil qualified reports of factual findings were issued. Matters that resulted in qualification reports of factual findings as they related to 2011–12 statements of performance for four audited agencies were reported as resolved in the 2012–13 financial audit report.<sup>13</sup>

## AUDIT FINDINGS

- 2.8 Each audit provided key findings to support its conclusions in relation to the following five themes:
- results of the financial audit program
  - audit findings
  - computer information systems
  - the Territory's financial statements; and
  - audit results and findings on ACT agencies and other entities.
- 2.9 A summary of the main findings is set out below.

## STATUS OF AUDIT FINDINGS

- 2.10 With regard to status on resolving previously reported audit findings:
- ...reporting agencies resolved 76 (52 per cent) of the 145 previously reported audit findings in 2013–14. In 2012–13, 211 (72 per cent) of the 292 previously reported audit findings were resolved; and
  - the percentage of previously reported audit findings that were not resolved increased from 11 per cent in 2012–13 to 17 per cent in 2013–14.<sup>14</sup>
- 2.11 While the 2012–13 financial audit report found that the performance of agencies in resolving previously reported audit findings improved significantly in 2012–13, it also noted that many
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<sup>12</sup> The two qualified reports related to the statement of performance of the ACT Public Cemeteries Authority and ACT Compulsory Third-Party Insurance Regulator. See ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 20.

<sup>13</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 3.

<sup>14</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 28.

weaknesses in controls over computer information systems, including major revenue applications, had not been resolved.<sup>15</sup>

## FINANCIAL AND PERFORMANCE REPORTING

### QUALITY OF FINANCIAL STATEMENTS

2.12 With regard to the quality of financial statements, the Audit Office found that in 2013–14 the overall quality of financial statements submitted by reporting agencies for audit was similar to 2012–13. The 2013–14 financial audit report noted that the:

- combined percentage of financial statements submitted for audit that were assessed as good or satisfactory in 2013–14 was 81 per cent compared to 77 per cent in 2012–13; and
- quality of the financial statements submitted for audit of seven (12 per cent) reporting agencies was assessed as unsatisfactory in 2013–14 while seven (11 per cent) unsatisfactory financial statements were submitted in 2012–13.

2.13 The 2013–14 financial audit report also noted that six of the seven unsatisfactory financial statements submitted for audit in 2012–13 were also assessed as unsatisfactory in 2013–14.<sup>16</sup>

2.14 The 2012–13 financial audit report found that the quality of financial statements submitted by agencies for audit in 2012–13 was slightly better than 2011–12.<sup>17</sup>

### TIMELINESS OF FINANCIAL STATEMENTS

2.15 The former Chief Minister and Treasury Directorate (CMTD) issued the 2013–14 whole-of-government reporting timetable which sets out the dates by which directorates and agencies must submit their certified financial statements to the Audit Office.<sup>18</sup>

2.16 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*.<sup>19</sup>

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<sup>15</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 4.

<sup>16</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 30.

<sup>17</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 4.

<sup>18</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 30.

<sup>19</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 31.

2.17 In 2013–14, compliance with the whole-of-government reporting timetable remained high as 93 per cent of agencies complied with the reporting timetable, compared with 89 per cent in 2012–13<sup>20</sup> and 90 per cent in 2011–12.<sup>21</sup>

#### QUALITY OF STATEMENTS OF PERFORMANCE

2.18 The percentage of agencies that prepared 'good' or 'satisfactory' statements of performance fell from 90 per cent in 2012–13 to 79 per cent in 2013–14.<sup>22</sup> The percentage of agencies that prepared 'unsatisfactory' statements of performance fell from 7 per cent in 2012–13 to nil instances in 2013–14.<sup>23</sup>

2.19 Whilst the preparation of 'good' or 'satisfactory' statements of performance fell from 90 per cent in 2012–13 to 79 per cent in 2013–14—the percentage of statements assessed as 'good' increased from 57 per cent to 69 per cent in 2013–14.<sup>24</sup> Also, whilst there were 'nil' instances of 'unsatisfactory' statements of performance in 2013–14—there was an increase in the percentage of statements assessed as 'fair' from 3 per cent in 2012–13 to 21 per cent in 2013–14.<sup>25</sup>

2.20 The Auditor-General was of the view that, in the main, the improvement in statements assessed as 'good' could be attributed to agencies:

...ensuring that the reported results of accountability indicators were correctly recorded prior to submitting their statements of performance to the Audit Office for review.<sup>26</sup>

2.21 In 2012–13, the quality of statements of performance submitted by agencies for review was found to have improved markedly.<sup>27</sup>

#### TIMELINESS OF STATEMENTS OF PERFORMANCE

2.22 In 2013–14, 97 per cent of reporting agencies complied with the whole-of-government reporting timetable by submitting their statements of performance to the Audit Office on time,

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<sup>20</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 31.

<sup>21</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 4.

<sup>22</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 32; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 32.

<sup>23</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 32; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 32.

<sup>24</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 32; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 32.

<sup>25</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 32; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 32.

<sup>26</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 32.

<sup>27</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 4.

compared to 83 per cent in 2012–13<sup>28</sup> and 90 per cent in 2011–12. While some agencies did not submit their 2012–13 statements of performance to the Audit Office on time, most provided their statements of performance soon after the due date.<sup>29</sup>

## ANNUAL REPORTING

### TIMELINESS OF ANNUAL REPORTS

- 2.23 For both 2013–14 and 2012–13, all except one reporting agency placed its annual report on the relevant website on time as required by the Annual Report Directions. In both years, one agency placed its annual report on its website shortly after the due date.<sup>30</sup>

### INCLUSION OF AUDITED DOCUMENTS IN ANNUAL REPORTS

- 2.24 The 2013–14 financial audit report found that eight reporting agencies (18 per cent) did not include all pages of their audited financial statements, reviewed statement of performance, or report of factual findings in the printed and electronic versions of their annual report.<sup>31</sup> In 2012–13, all agencies published the correct version of their financial statements and statements of performance in the printed and electronic version of their annual reports.<sup>32</sup>

## BUDGET MANAGEMENT

- 2.25 According to the 2013–14 financial audit report, the Territory's operating deficit of \$26 million was less than the budgeted deficit of \$134 million and a few agencies—including ACTION, Canberra Institute of Technology, the Economic Development Directorate, and the Land Development Agency—did not achieve their budgeted results.<sup>33</sup> Similarly, in 2012–13, while the Territory's operating deficit was less than the deficit anticipated in the Budget, some agencies did not achieve their budgeted results.<sup>34</sup>
- 2.26 In 2013–14, ACTION's net cost of services exceeded the budgeted and prior year costs by \$4.4 million (4.0 per cent) and \$9.1 million (8.6 per cent) respectively due to higher employee costs, workers' compensation insurance premiums and fuel costs.<sup>35</sup> In the same year, the net cost of Canberra Institute of Technology's services, 'excluding the cost of a planned asset

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<sup>28</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 33.

<sup>29</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 5.

<sup>30</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 33; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 5.

<sup>31</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 33.

<sup>32</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 5.

<sup>33</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 34.

<sup>34</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 5.

<sup>35</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 108.

transfer of the Watson campus to the ACT Property Group, was \$2.2 million (2.9 percent) higher than the budgeted cost due mainly to lower than expected income from training courses and student fees.<sup>36</sup>

## COMPUTER INFORMATION SYSTEMS

2.27 This section summarises findings of the applicable audits as they relate to: (i) application controls; (ii) data processing controls—supplier master files; (iii) information security management—management of user access, audit logs and password complexity; (iv) continuity arrangements—business continuity and disaster recovery arrangements; and (v) change management processes—change management police and procedures.

### APPLICATION CONTROLS

2.28 The Audit Office reviewed the application controls relating to 10 major applications used by reporting agencies in 2013–14.<sup>37</sup> This involved consideration of data processing controls; information security management; continuity arrangements; and change management processes.<sup>38</sup>

2.29 The Audit found in 2013–14 that half of the 20 previously reported audit findings for the ten applications it reviewed were resolved while half were not resolved. Nine new audit findings were identified in 2013–14.<sup>39</sup> For 2012–13, agencies resolved 15 (48 per cent) of the 31 previously reported audit findings relating to the 12 key applications which were reviewed in 2012–13. Four new audit findings were identified during 2012–13.<sup>40</sup>

### DATA PROCESSING CONTROLS

#### SUPPLIER MASTER FILES

2.30 The 2013–14 financial audit report noted that the 'one time supplier' function in ORACLE Financials had been disabled, thereby reducing the risk of fraudulent payments as it prevents a user from processing the payment of an invoice to a supplier whose details have not been reviewed and approved by another officer.<sup>41</sup> This was an improvement on 2012–13, where

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<sup>36</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 116.

<sup>37</sup> The 10 applications reviewed were: ORACLE Financials; CHRIS21; MAZE; Community 2011; Territory Revenue System; Homenet; rego.act; MyWay; Cashlink; and TM1.

<sup>38</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 44.

<sup>39</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 45.

<sup>40</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 5.

<sup>41</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 46.

this functionality presented a risk that fraudulent payments could be made to a fictitious supplier.<sup>42</sup>

## INFORMATION SECURITY MANAGEMENT

### MANAGEMENT OF USER ACCESS

- 2.31 In 2013–14, the applicable audit found some directorates took steps to reduce inappropriate and fraudulent access to information by documenting and approving policies and procedures in relation to user access.
- 2.32 Notwithstanding, the Auditor-General was of the view that some areas of concern remain. These include: (i) issues regarding access to MAZE in the Education and Training Directorate; (ii) questions about the effectiveness of reviews of user access to the Territory Revenue System; (iii) lack of monitoring of high risk transactions processed in the Territory Revenue System; (iv) lack of restriction over the number of people who can access Cashlink receipt files; and (v) risks of fraud and errors occurring in the MyWay system.<sup>43</sup>
- 2.33 In 2012–13, the applicable audit found that the risk of inappropriate and possibly fraudulent access to information in a number of databases had been reduced by the documentation and approval of policies regarding user access and the conduct of periodic reviews of access to each application. However, the Auditor-General also noted that periodic reviews of databases including MAZE, Homenet and TM1 had not been performed.<sup>44</sup>

### AUDIT LOGS

- 2.34 In 2013–14, the applicable audit considered that the performance of periodic reviews of audit logs for ORACLE Financials reduced the risk of undetected erroneous, irregular or fraudulent changes to this system. However, periodic reviews of audit logs for the MAZE, Territory Revenue System, Homenet and MyWay applications and the Cashlink and Community 2011 database servers were not performed, and no approved policies and procedures were in place to address the performance of such reviews. The 2013–14 financial audit report suggested that these oversights presented a risk of erroneous, irregular or fraudulent changes being made to these systems and data not being detected.<sup>45</sup>
- 2.35 Similarly, for 2012–13, periodic reviews of audit logs for ORACLE Financials, MAZE, Territory Revenue System, Homenet and MyWay including the underlying data were not performed,

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<sup>42</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 5.

<sup>43</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 46-47.

<sup>44</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 6.

<sup>45</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 48-49.

and there were no approved policies and procedures which address the performance of such reviews.<sup>46</sup>

#### PASSWORD COMPLEXITY

- 2.36 For the 2013–14 and 2012–13 reporting periods, both audit reports observed that the use of complex passwords is not automatically enforced by the Territory Revenue System or TM1 and that this presents a risk of inappropriate or fraudulent access to these systems.<sup>47</sup>

#### CONTINUITY ARRANGEMENTS

##### BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

- 2.37 According to the 2013–14 financial audit report, business continuity and disaster recovery plans for the Territory Revenue System, Community 2011, rego.act, MyWay and TM1 need to be updated, approved and tested and they do not reflect the current recovery arrangements for these systems. Furthermore, whilst backup and recovery testing was performed by Housing ACT and Shared Services for Homenet, the results of this testing and the actions required to resolve any problems identified during the testing were not formally documented.<sup>48</sup>
- 2.38 In 2012–13, the applicable audit found that data recovery and testing processes for MAZE, Homenet, MyWay, TM1 and the related data were not approved and tested, presenting a risk that these systems will not be effectively recovered following a disaster, disruption or other adverse event.<sup>49</sup>

#### CHANGE MANAGEMENT PROCESS

##### CHANGE MANAGEMENT POLICIES AND PROCEDURES

- 2.39 In 2013–14, the applicable audit found that the testing results for fare and schedule changes made to MyWay were not documented before being implemented. The Auditor-General was of the view this presented a risk that: (i) changes made to MyWay will not operate as intended; and (ii) information will be lost and services that rely on MyWay will be disrupted.<sup>50</sup> For 2012–13, there was no approved change management policy for MAZE, and according to the Audit

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<sup>46</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 6.

<sup>47</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 49; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 6.

<sup>48</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 50.

<sup>49</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 7.

<sup>50</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 51.

report this increased the risk of untested, erroneous and fraudulent changes being made to MAZE.<sup>51</sup>

## ENVIRONMENT CONTROLS IMPLEMENTED BY SHARED SERVICES

- 2.40 The 2013–14 financial audit report included a review of environment controls implemented by Shared Services with regard to computer information management systems. This involved consideration of: (i) governance arrangements; (ii) information security management; (iii) continuity arrangements; (iv) change management processes; (v) contract management arrangements; and (vi) project management arrangements.<sup>52</sup>
- 2.41 The Audit found that while overall, Shared Services' environment controls were satisfactory—there were areas where controls could be strengthened. Two (20 per cent) of the ten previously reported audit findings were resolved, seven were partially resolved and one was not resolved. One new audit finding was identified in 2013–14.<sup>53</sup>
- 2.42 Shared Services advised that it was not able to resolve three of ten previously reported audit findings (relating to vendor support for operating systems; security of information; and alternative information technology infrastructure arrangements) and one new audit finding (relating to the security of externally hosted websites by ACT Government agencies) as a whole-of-government approach was required.<sup>54</sup>
- 2.43 In 2012–13, Shared Services improved the computer information systems environment controls by resolving the majority of the previously reported audit findings. Nineteen of the twenty six previously reported audit findings were resolved and seven were not resolved. While areas for improvement were identified, these controls were assessed to be generally satisfactory.<sup>55</sup>

## GOVERNANCE ARRANGEMENTS

- 2.44 No significant weaknesses in governance arrangements were identified in the 2013–14 financial audit report.<sup>56</sup> The applicable audit in 2012–13 observed improvements in planning which increased the likelihood that current and future information technology arrangements implemented by Shared Services would be effective.<sup>57</sup>

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<sup>51</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 7.

<sup>52</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 52.

<sup>53</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 52.

<sup>54</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 52.

<sup>55</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 7.

<sup>56</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 53.

<sup>57</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 7.

#### PASSWORD CONTROLS

- 2.45 The 2013–14 and 2012–13 financial audits reports both identified weaknesses in password controls. In particular, the 2013–14 report found that:

The level of password complexity required by the ACT Government's password standard to gain access to the ACT Government network is not automatically enforced by the computer system.....[A]utomatic enforcement of password complexity requirements by the computer system would provide a more effective and efficient means of ensuring compliance.<sup>58</sup>

#### VENDOR SUPPORT FOR OPERATING SYSTEMS

- 2.46 In 2012–13, a number of servers in the Government network used operating systems that were no longer supported by system vendors.<sup>59</sup> Similarly, the 2013–14 financial audit report found that various servers on the Government network use operating systems that are no longer supported by the system vendors. This latter report pointed out that while Shared Services had partially addressed this weakness, and had agreed to work with Government agencies to ensure that all server operating systems were supported, it advised that it cannot force agencies to upgrade their systems to run on supported operating systems.<sup>60</sup>

#### ACCESS SECURITY AT DATA CENTRES

- 2.47 The 2013–14 financial audit report found that Shared Services performed weekly reviews of reports of all critical access attempts to data centre sites to reduce the risk of unauthorised access to Government data centres. Documentation supporting these reviews was kept and evidence indicated that irregular access attempts were identified and investigated. Also, in August 2013, Shared Services performed a review of access granted to data centres and removed access for those people who no longer required it. Access for officers was also restricted to those areas of the data centres that staff needed access to for performing their duties.<sup>61</sup>
- 2.48 Despite these improvements, for 2013–14, the Audit Office reviewed access of all staff to the data centres and found that:

- two former staff continued to have active access to data centres; and

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<sup>58</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 53; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 8.

<sup>59</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 8.

<sup>60</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 54.

<sup>61</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 54.

- an excessive number of spare access passes were being kept for temporary access to data centres.<sup>62</sup>

2.49 In 2012–13, the applicable audit found that while Shared Services made improvements to its arrangements for managing information security, several weaknesses remained.<sup>63</sup>

#### ACCESS TO THE ACT GOVERNMENT NETWORK

2.50 In both 2013–14 and 2012–13 the respective audits identified a number of weaknesses regarding access to the Government network.

2.51 For 2013–14, the Audit Office did not identify any instances where former employees continued to have access to the ACT Government network. During the 2013–14 year, Shared Services strengthened controls over access to the Government network. Notwithstanding, the 2013–14 audit found that Shared Services did not:

- perform regular reviews of users provided with the standard level of access to the Government network;
- eliminate or reduce the use of generic accounts on the Government network;
- perform a review of generic accounts and disable access that would allow users to make changes to the security, confidentiality or integrity of critical data.<sup>64</sup>

2.52 In 2012–13, the applicable audit found that while Shared Services had made improvements to its arrangements for managing information security, there continued to be a large number of generic (shared) user accounts on the ACT Government network; regular information on users was not being provided to Government agencies to enable them to perform regular reviews of access levels provided to users; and a review of privileged user access did not cover all privileged accounts.<sup>65</sup>

#### SECURITY PLANNING

2.53 In 2013–14, the applicable audit noted that Shared Services had documented and approved<sup>66</sup> its information technology security plan. The Auditor-General was of the view that implementation of the approved plan should provide more assurance that arrangements for managing security over information technology would be effective.<sup>67</sup>

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<sup>62</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 54–55.

<sup>63</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 8.

<sup>64</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 55.

<sup>65</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 8.

<sup>66</sup> In its audit on 2012–13 Financial Audits—the Audit Office commented that Shared Services' information technology security plan had not been finalised.

<sup>67</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 56.

#### EXTERNALLY HOSTED WEBSITES

- 2.54 For 2013–14, the applicable audit noted that Shared Services ICT had advised that it was unable to enforce the same level of security on external providers of websites as it can enforce on websites that are hosted internally.<sup>68</sup>

#### SECURITY OF INFORMATION

- 2.55 The 2012–13 financial audit report found that although Shared Services had improved its arrangements for managing information security, there was no system in place for effectively managing the security of information according to its security classification. The Audit was of the view that this increased the risk that security classified information stored in computer information systems would not be adequately protected.<sup>69</sup>
- 2.56 In 2013–14, the applicable audit report commented that during that year—Shared Services had launched a trial of a document security classification system for Microsoft Office documents. However, it also noted Shared Services' advice that it could not require agencies to use the new security classification system or enforce restrictions on the access, storage, transmission and disposal of security classified information; and regular reviews of audit logs covering the access, storage, transmission, transfer and disposal of security classified information.<sup>70</sup>

#### CONTINUITY ARRANGEMENTS

##### ALTERNATIVE INFORMATION TECHNOLOGY INFRASTRUCTURE ARRANGEMENTS

- 2.57 The 2013–14 financial audit report found that agency support agreements with Shared Services had been updated to include details of all agency systems, their criticality and infrastructure availability arrangements. Notwithstanding this finding, as was the case for 2012–13, there remained a risk that critical systems would not be recoverable in a timely manner because:
- the information technology infrastructure supporting several critical systems is not replicated at an alternative site; and
  - disaster recovery plans do not identify alternative information technology infrastructure arrangements.<sup>71</sup>

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<sup>68</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 56.

<sup>69</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 9.

<sup>70</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 57.

<sup>71</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 57; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 9.

#### CHANGE MANAGEMENT PROCESSES

2.58 The 2013–14 financial audit found that Shared Services did not regularly:

- undertake reviews of audit logs for suspicious or high risk changes, including unauthorised or possibly fraudulent changes, to critical software and hardware; and
- reconcile changes recorded in the audit logs to authorised change records in the change management system.

2.59 The Auditor-General was of the view that this situation presented a risk of unauthorised and possibly fraudulent changes being made to critical hardware and software.<sup>72</sup> A similar observation was made by the Auditor-General in the 2012–13 Financial Audits report.<sup>73</sup>

#### CONTRACT MANAGEMENT GUIDELINES AND PROCEDURES

2.60 The 2013–14 financial audit report found that Shared Service ICT had improved its Contract Management Guidelines by including procedures for regularly monitoring suppliers' compliance with their contracts. However, the Audit report was of the view that the Guidelines should be updated to include the: (i) current risk management practices used by Shared Services ICT; and (ii) regular review of expenditure records to identify new or amended ICT contracts under the responsibility of Shared Services ICT. Furthermore, these contracts should be reviewed to ensure that the services are being provided at the contracted price.<sup>74</sup>

2.61 The 2012–13 Financial Audits report also observed improvements in the Shared Services Contract Management Guidelines as well as improvements in the accuracy and completeness of Shared Services' contract register.<sup>75</sup>

#### PROJECT MANAGEMENT ARRANGEMENTS

2.62 The 2013–14 financial audit report found no significant weaknesses in project management arrangements.<sup>76</sup> In its 2012–13 report, the Audit Office noted that out-dated policies and procedures relating to project management had been updated and approved and that this provided an assurance that approved project management practices would be consistently applied.<sup>77</sup>

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<sup>72</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 58.

<sup>73</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 9.

<sup>74</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 59.

<sup>75</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, pp. 9–10.

<sup>76</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 59.

<sup>77</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 10.

## THE TERRITORY'S FINANCIAL STATEMENTS

### AUDIT REPORT

- 2.63 An unqualified audit report was issued on the Treasury's Consolidated Annual Financial Statements for both 2013–14 and 2012–13.<sup>78</sup>

#### OPERATING RESULTS—NET OPERATING BALANCE

- 2.64 The 2013–14 financial audit report found that the Territory had incurred a deficit in the net operating balance of \$309 million in 2013–14, which was less than both the budgeted deficit of \$438 million and the deficit of \$456 million incurred in 2012–13.
- 2.65 The Auditor-General noted that the net operating balance had declined in recent years from a surplus of \$110 million in 2009–10 to a deficit of \$309 million in 2013–14. The decline was attributed mainly to increases in employee and supplies and services expenses exceeding increases in revenue from Commonwealth Government grants and taxation.
- 2.66 Deficits in the net operating balance are expected for each of the forward years from 2014–15 to 2017–18. The forward estimates indicate that the deficits in the operating balance will increase from \$309 million in 2013–14 to a peak of \$537 million in 2014–15 and, thereafter, are expected to decrease to \$138 million in 2017–18.
- 2.67 The Auditor-General noted that these planned deficits in the net operating balance over the forward years from 2014–15 to 2017–18 means that the Territory will be exposed to large deficits if unexpected adverse events cause large negative fluctuations in revenue and expenses. These planned deficits do not, for example, take into account major negative financial effects of the Government's recently announced response to households affected by "Mr Fluffy" asbestos.<sup>79</sup>
- 2.68 The 2012–13 Financial Audits report found that the net operating balance, a deficit of \$456 million, exceeded the budgeted deficit of \$443 million by \$13 million (2.9 per cent). Also, the deficit in the net operating balance of \$456 million exceeded the prior year's deficit of \$97 million by \$359 million (370.1 per cent) due mainly to higher employee and superannuation costs and, to a lesser extent, supplies and services costs.<sup>80</sup>

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<sup>78</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 9; ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 10.

<sup>79</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 68–69.

<sup>80</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 10.

## OPERATING RESULT—OPERATING SURPLUS/DEFICIT

- 2.69 The 2013–14 financial audit report found that the Territory’s operating deficit of \$26 million in 2013–14 was less than both the budgeted deficit of \$134 million and the deficit of \$122 million incurred in 2012–13. The forward estimates indicate that the Territory expects to incur operating deficits of \$359 million and \$85 million, in 2014–15 and 2015–16, respectively. Thereafter, in 2016–17 and 2017–18, it is expected that surpluses of \$26 million and \$110 million, will be generated respectively. The Auditor-General observed that these planned deficits and small surpluses over the forward years from 2014–15 to 2017–18 mean that the Territory is exposed to larger deficits if adverse events resulted in negative fluctuations to revenue and expenses and other economic flows.<sup>81</sup>
- 2.70 According to the 2012–13 financial audit report, the operating deficit of \$122 million was lower than the budgeted deficit of \$257 million due largely to higher than anticipated gains on superannuation investments which were partially offset by lower net land revenue (included in other economic flows).<sup>82</sup>

## HISTORICAL ASSETS TO LIABILITIES COVERAGE

- 2.71 The 2013–14 financial audit report found that the Territory’s net assets of \$15 193 million were \$1 436 million less than the budgeted amount of \$16 629 million—a difference of 8.6 per cent. This was due mainly to a higher than expected unfunded superannuation liability resulting from the use of a lower rate to estimate the present value of the superannuation liability. The Auditor-General also observed that the Territory’s net asset position has not changed significantly over the five financial years ending 30 June 2010 to 30 June 2014 (inclusive).<sup>83</sup>
- 2.72 According to the 2012–13 financial audit report, the Territory’s net asset position as at 30 June 2013 (\$15 550 million) was lower than the budgeted position (\$16 110) as the higher than estimated superannuation liability exceeded the increase in assets. The net asset position as at 30 June 2013 (\$15 550 million) was \$1 458 million (10.3 per cent) higher than the prior year’s position (\$14 092 million) due mainly to the increase in assets.<sup>84</sup>

## HISTORICAL SHORT-TERM ASSETS TO SHORT-TERM LIABILITIES COVERAGE

- 2.73 The 2013–14 financial audit report assessed the Territory’s short-term financial position by comparing the amount of short-term financial assets available to cover short-term liabilities. It found that the Territory had sufficient short-term financial assets to cover its short-term
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<sup>81</sup> ACT Auditor-General’s Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 69-70.

<sup>82</sup> ACT Auditor-General’s Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 11.

<sup>83</sup> ACT Auditor-General’s Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 71.

<sup>84</sup> ACT Auditor-General’s Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 12.

liabilities at 30 June 2014 and its short-term financial position is much stronger than was estimated in the Budget. This is mainly due to significantly higher than anticipated financial assets (mainly investments) being available to cover short-term liabilities.<sup>85</sup>

- 2.74 The report also found that the short-term financial position was estimated to weaken significantly from the position that existed at 30 June 2014. Based on the forward estimates included in the 2014–15 Budget Papers released in June 2014, except for the estimated short-term liability position of \$118 million at 30 June 2017, the Territory is estimated to have sufficient short-term financial assets to cover its short-term liabilities over the forward years from 30 June 2015 to 30 June 2018. Again these forward estimates do not take account of the expected adverse financial impact of the ACT Government's recently announced responses to households affected by "Mr Fluffy" asbestos.<sup>86</sup>
- 2.75 The 2012–13 financial audit report found that the Territory's short-term financial position as at 30 June 2013 was sufficient for the Territory to meet its short-term liabilities and is stronger than was estimated in the Budget.<sup>87</sup>

#### HISTORICAL LONG-TERM FINANCIAL ASSETS TO LIABILITIES COVERAGE

- 2.76 The 2013–14 financial audit report evaluated the Territory's long-term financial position by comparing financial assets to liabilities. It found that the Territory's long-term financial position at 30 June 2014 was stronger than that estimated in the Budget but weaker than the position which existed at 30 June 2013. The latter result is due mainly to an increase in borrowings used to fund capital activities (in particular, the Territory's Infrastructure Investment Program).
- 2.77 The long-term financial position over the forward years from 30 June 2015 to 30 June 2018 is expected to weaken slightly from the position which existed at 30 June 2014, mainly due to the combined effects of estimated future increases in borrowings and decreases in financial assets. However, the report points out that this is based on the forward estimates included in the 2014–15 Budget Papers released in June 2014 and does not take into account major unforeseen financial circumstances and events such as the expected adverse financial impact of the Government's recently announced response to households affected by "Mr Fluffy" asbestos.

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<sup>85</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 71–72.

<sup>86</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 72.

<sup>87</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 12.

- 2.78 Borrowings are expected to increase significantly over the forward years from 30 June 2015 to 30 June 2018 to fund capital activities (in particular, the Territory's Infrastructure Investment Program).
- 2.79 Furthermore, as disclosed in the 2014–15 Budget Papers, the unfunded superannuation liability is estimated to decrease significantly from the position that existed as at 30 June 2014. The unfunded superannuation liability as at 30 June 2014 substantially exceeds the forward estimates of this liability due mainly to the use of a lower rate to estimate the present value of the superannuation liability as at 30 June 2014 compared to that used to prepare the forward estimates.<sup>88</sup>
- 2.80 According to the 2012–13 financial audit report, the long-term financial position as at 30 June 2013 was slightly stronger than in 2011–12 and stronger than was estimated in the 2012–13 Budget. The strengthening of the long-term financial position was largely due to an increase in the value of investments and a reduction in the unfunded superannuation liability. This was partially offset by borrowings taken out to fund the major capital works projects.<sup>89</sup>

## AUDIT RECOMMENDATIONS

### 2013–14 FINANCIAL AUDITS

- 2.81 The 2013–14 financial audit report made 14 recommendations of which one related to resolution of audit findings; 2 related to quality of statements; and 11 related to computer information systems.
- 2.82 These recommendations are reproduced in full at **Appendix A**. Table 2.1—Summary of 2013–14 audit recommendations and broad coverage provides a summary of the recommendations across the main audit themes.
- 2.83 In 2013–14, the Government adopted a new approach for responding to performance audit reports. Changes under the new approach included: (i) confining management responses in audit reports to advising of factual errors only; and (ii) the discontinuation of the provision of a Government submission to the Committee in response to each audit report (three months after presentation).
- 2.84 The new approach for responding to performance audit reports is reflected in the 2013–14 financial audit report. The Report pointed out that:

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<sup>88</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 73–74.

<sup>89</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 13.

Chief Minister, Treasury and Economic Development Directorate has noted these audit recommendations and advised that:

All findings and recommendations are noted, considered and carefully monitored by management and internal audit committees. However, where there are material financial implications associated with recommendations, decisions on implementation are subject to the normal Government budget expenditure prioritisation processes.<sup>90</sup>

2.85 As a consequence Table 2.1 indicates that the Government has noted each recommendation only but does not provide any additional information regarding its position on each recommendation—in particular, whether recommendations have been accepted, either in whole or in-part and any action to date, either completed or in progress.

Table 2.1—Summary of 2013–14 financial audit recommendations and broad coverage

Audit theme	Government response	Recommendation number and broad coverage
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<sup>90</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 62.

Audit findings	Noted	R1—Status of audit findings
Quality of statements	Noted	R2—Quality of statements of performance
	Noted	R3—Inclusion of audited documents in annual reports
Computer information systems	Noted	R4—Management of access by users
	Noted	R5—Audit logs
	Noted	R6—Access to key systems, applications and data password complexity
	Noted	R7—Business continuity and disaster recovery arrangements
	Noted	R8—Access to the ACT Government Network – password complexity
	Noted	R9—Access to the ACT Government Network – generic user accounts
	Noted	R10—Change management processes
	Noted	R11—Vendor support for operating systems
	Noted	R12 – Externally hosted websites
	Noted	R13 – Security of information
Noted	R14 – Alternative information technology infrastructure arrangements	

2012–13 FINANCIAL AUDITS

2.86 The 2012–13 financial audit report made 11 recommendations of which 5 related to audit findings; 5 related to computer information systems; and 1 related to the Territory’s financial statements.

2.87 These recommendations are reproduced in full at **Appendix B**. Table 2.2—Summary of 2012–13 financial audit recommendations and broad coverage provides a summary of the recommendations across the main audit themes.

2.88 As noted previously, the Government provided a submission to the Committee in March 2014 setting out its position on the recommendations. A summary of the Government position on each recommendation is also shown in Table 2.2.

Table 2.2—Summary of 2012–13 financial audit recommendations and broad coverage

Audit theme	Government response	Recommendation number and broad coverage
Audit findings	Agreed	R1—Timely resolution of audit findings, monitoring and follow-up

REVIEW OF AUDITOR-GENERAL'S REPORTS: NO. 7 OF 2014: 2013– 23  
14 FINANCIAL AUDITS; AND NO. 7 OF 2013: 2012–13 FINANCIAL  
AUDITS

	Agreed	R2—Quality and compliance of financial statements
	Agreed	R3—Explanation of material variances from planned levels of performance
	Agreed	R4—Reporting on accountability indicators
	Agreed	R5—Timely submission of statements of performance
Computer information systems	Agreed in part	R6—Audit logs
	Agreed	R7—Policies and procedures regarding user access
	Agreed	R8—Business continuity plans and/or disaster recovery procedures
	Agreed in part	R9—Generic (shared) user accounts
	Agreed in part	R10—Complex passwords
Territory financial statement	Agreed	R11—Preparation of a management discussion and analysis report for the Territory's financial statements

2.89 In its submission, the Government stated that it agreed to recommendations 1 to 5, 7, 8 and 11, and agreed in part to recommendations 6, 9 and 10.

2.90 With regard to recommendation 6 concerning the regular review of audit logs, the Government stated:

Management should determine whether the regular review of audit logs as part of broad procedure will add value in identifying errors, irregularities or fraud.

The majority of key Government systems are generating audit logs that continue to be monitored for irregularities.

Planned upgrades to major systems including Oracle Financials and the Territory Revenue System will enable the regular review of audit logs.

The Education and Training Directorate has implemented changes to its governance frameworks to address these issues with the MAZE system.

Deficiencies in the MyWay system regarding this recommendation are currently being reviewed.<sup>91</sup>

2.91 With regard to recommendation 9 concerning generic (shared) user accounts, the Government stated:

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<sup>91</sup> ACT Government submission 14 March 2014, p. 5.

Agencies will monitor and review practices relating to generic user accounts taking into account the nature of that access and potential impact on system security.

In relation to TM1, CMTD does not agree to cease the use of generic user accounts as sufficient mitigating controls exist to manage the risk associated with generic user accounts in TM1. CMTD will enhance existing policies to identify levels of generic user access.<sup>92</sup>

2.92 With regard to recommendation 10 concerning the use of complex passwords, the Government stated:

Shared Services continues to undertake six monthly audits of password complexity as required by the ACT Government Password Standard.

In the majority of cases where generic passwords are used for specific applications, these are monitored by Shared Services ICT. Many of these applications are available to users following login to the ACT Government network.

The Commerce and Works Directorate will implement the use of complex passwords for the Territory Revenue System following a planned upgrade. CMTD has reviewed the level of password complexity for TM1 and does not agree to change existing practices as the application does not support these changes in its current licensed contract. CMTD believe this presents a low risk due to alternative arrangements that have been put in place to strengthen TM1 security.<sup>93</sup>

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<sup>92</sup> ACT Government submission 14 March 2014, p. 6.

<sup>93</sup> ACT Government submission 14 March 2014, p. 6.

## 3 COMMITTEE COMMENT

### SIGNIFICANT ISSUES

- 3.1 In considering the findings of the 2013–14 and 2012–13 financial audits—the Committee has been able to readily compare findings across each reporting period to determine improvements and responsiveness to concerns raised by the Auditor-General. Whilst the Committee notes there has been improvements in procedures and operations to address shortcomings identified, there a number of significant issues that warrant further comment. These are discussed below.

### PROGRESS ON IMPLEMENTATION OF 2013–14 RECOMMENDATIONS

- 3.2 As noted previously, the 2013–14 financial audit report was subject to the Government's new approach for responding to reports of the Auditor-General. Consequently, the Government has not provided any information regarding its position on each of the 14 recommendations—in particular, whether recommendations have been accepted, either in whole or in-part and any action to date, either completed or in progress.
- 3.3 The Committee emphasises that it is the action taken by applicable agencies to implement audit recommendations that is all important, in helping achieve better efficiency and improving accountability of the Government, not the recommendations *per se*. Furthermore, failure to implement agreed audit recommendations means that the Government will continue to be exposed to risks associated with the deficiencies and weaknesses identified in the audited areas.

### Recommendation 1

- 3.4 **The Committee recommends that the ACT Government report to the ACT Legislative Assembly, by the last sitting day in September 2015, on the progress and effectiveness of the Government's implementation of the recommendations, made in Auditor-General's Report No. 7 of 2014: 2013–14 Financial Audits, that have been accepted either in whole or in-part. This should include: (i) a summary of action to date, either completed or in progress (including milestones completed); and (ii) the proposed action (including timetable), for implementing recommendations (or parts thereof), where action has not yet commenced.**

## QUALITY AND TIMELINESS OF REPORTING IN FINANCIAL STATEMENTS AND STATEMENTS OF PERFORMANCE

- 3.5 The Committee has made comment (and, where applicable, recommendations) in relation to the quality and timeliness of reporting in financial statements and statements of performance for each reporting period in its report inquiring into 2012–13 annual reports (tabled 20 March 2014) and 2013–14 annual reports (tabled 26 March 2015) respectively.

## PROGRESS MADE BY AGENCIES IN RESOLVING AUDIT FINDINGS

- 3.6 The Committee notes the Audit Office's finding that in 2013–14 the performance of reporting agencies in resolving previously reported audit findings decreased as:
- reporting agencies resolved 76 (52 per cent) of the 145 previously reported audit findings in 2013–14, while in the previous year, 211 (72 per cent) of the 292 audit findings were resolved; and
  - the percentage of previously reported audit findings that were not resolved increased from 11 per cent in 2012–13 to 17 per cent in 2013–14.<sup>94</sup>
- 3.7 Whilst the performance of agencies in resolving previously reported audit findings improved in 2012–13, the Audit Office also noted that many weaknesses in controls over computer information systems, including major revenue applications, had not been resolved.<sup>95</sup>
- 3.8 The Committee notes the Auditor-General's comment that in 2013–14:
- A significant proportion of the unresolved audit findings relate to weaknesses in controls over computer information systems, including major revenue applications.<sup>96</sup>
- 3.9 The Committee draws attention to the Audit office's comment 'that reporting agencies need to improve their processes for resolving previously reported audit findings.'<sup>97</sup> The Committee is also of the view, to the extent that this is not already happening, internal audit committees should be monitoring progress made by their respective directorate or agency in resolving reported audit findings.

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<sup>94</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 28.

<sup>95</sup> ACT Auditor-General's Report No. 7 of 2013: *2012–13 Financial Audits*, December 2013, p. 4.

<sup>96</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 29.

<sup>97</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 28.

## Recommendation 2

### **3.10 The Committee recommends that ACT Government directorates and agencies prioritise the monitoring and resolution of reported financial audit findings of the Auditor-General.**

#### COMPUTER INFORMATION SYSTEMS

- 3.11 The adequacy of controls over computer information systems is considered during the financial statement audit process. This includes the assessment by the Audit Office of both *environment controls* (i.e. controls over the computer network, equipment, servers, data bases and data centres that affect the reliability of all IT systems and applications) and *application controls* (i.e. controls that are specific to each application—such as controls over user access, continuity arrangements and change management).
- 3.12 The Committee notes with some concern the increase in audit findings and associated recommendations relating to computer information systems in 2013–14 (11 recommendations) as compared to 2012–13 (5 recommendations).
- 3.13 The Committee notes that a number of reports of the Auditor-General have identified significant control weaknesses in relation to various IT systems. This includes concerns regarding data access, password controls, monitoring access through audit logs, and the need to update, approve and test business continuity and disaster recovery plans.
- 3.14 The Committee emphasises the importance of strong controls in relation to:
- system access—to reduce inappropriate or fraudulent access to information;
  - the conduct of periodic audit logs—to detect accidental or fraudulent changes to applications or data; and
  - updating, approval and testing of business continuity and disaster recovery plans—to help ensure that systems and data can be recovered following a disaster or adverse event.
- 3.15 In regard to environment controls, the Committee notes the finding of the Audit Office that overall, the environment controls implemented by Shared Services were satisfactory, but some controls could be strengthened. The Committee notes comments by the Audit Office about, for example, the effectiveness and efficiency of having automatic enforcement of password complexity, the regular review of users provided with access, and the elimination or reduction of generic accounts.
- 3.16 The Committee emphasises the need for agencies to have strong controls in place to ensure the integrity of information and that appropriate arrangements are in place regarding system access.

## Recommendation 3

- 3.17 The Committee recommends that 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 (environment controls) and controls that are specific to each application (application controls). The Committee further recommends that the Government report back to the Legislative Assembly by the last sitting day in 2015 on these assessments.**
- 3.18 The Committee is also of the view, to the extent that this is not already happening, internal audit committees should: (i) review the roles and responsibilities they have in assuring data security and privacy controls and practices within their respective directorate or agencies; and (ii) regularly monitor and report on these roles and responsibilities.

## Recommendation 4

- 3.19 The Committee recommends that ACT Government internal audit committees should: (i) review the roles and responsibilities they have in assuring data security and privacy controls and practices within their respective directorate or agencies; and (ii) regularly monitor and report on these roles and responsibilities to the Strategic Board.**
- 3.20 The Committee expresses its ongoing concern at the recurring audit findings as they relate to computer information systems—in particular, environmental controls and application controls. Critically, this concern is of particular importance as the Government has signalled its intention to migrate more and more into the digital realm ‘to transform the way individuals and businesses communicate and transact with government’.<sup>98</sup>
- 3.21 The Government announced as part of its broader digital services agenda in the 2014–15 Budget—the iConnect program—a whole-of-government initiative being led by Service ACT to support how the Government transacts with individuals and businesses as part of digital service delivery.<sup>99</sup>
- 3.22 The Committee reiterates the following 2013–14 audit findings as they relate to environment and application controls for key systems with a digital service delivery capacity:

According to the 2013–14 financial audit report , business continuity and disaster recovery plans for the Territory Revenue System, Community 2011, rego.act, MyWay

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<sup>98</sup> Refer—<http://www.cmd.act.gov.au/policystrategic/iconnect>

<sup>99</sup> Refer—<http://www.cmd.act.gov.au/policystrategic/iconnect>

and TM1 need to be updated, approved and tested and they do not reflect the current recovery arrangements for these systems. Furthermore, whilst backup and recovery testing was performed by Housing ACT and Shared Services for Homenet, the results of this testing and the actions required to resolve any problems identified during the testing were not formally documented.<sup>100</sup>

The Audit Office reviewed the application controls relating to 10 major applications used by reporting agencies in 2013–14.<sup>101</sup> This involved consideration of data processing controls; information security management; continuity arrangements; and change management processes.<sup>102</sup> The Audit found in 2013–14 that half of the 20 previously reported audit findings for the ten applications it reviewed were resolved while half were not resolved.

- 3.23 Whilst the focus on the development of a broader digital service delivery capacity is to be commended, the Committee considers that for stakeholders to engage in digital self-service transactions as envisaged by iConnect they must be able to trust the environment in which they are doing business.

## ENVIRONMENTAL CONTROLS IMPLEMENTED BY SHARED SERVICES

- 3.24 The Committee notes Shared Services advised that it was not able to resolve three of ten previously reported audit findings and that to do so would require a whole-of-government approach.<sup>103</sup>

- 3.25 The three previously reported audit findings relate to:

- vendor support for operating systems—several servers on the ACT Government network use operating systems that are no longer supported by the system vendors and Shared Services cannot force agencies to upgrade their systems to run on supported operating systems;<sup>104</sup>
- security of information—Shared Services cannot require agencies to use a new security classification system for documents;<sup>105</sup> and

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<sup>100</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 50.

<sup>101</sup> The 10 applications reviewed were: ORACLE Financials; CHRIS21; MAZE; Community 2011; Territory Revenue System; Homenet; rego.act; MyWay; Cashlink; and TM1.

<sup>102</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 44.

<sup>103</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 52.

<sup>104</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 54.

<sup>105</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 57.

- alternative information technology infrastructure arrangements—Shared Services is unable to force ACT Government agencies to implement alternative infrastructure arrangements for their critical systems.<sup>106</sup>

3.26 The Committee also notes the advice of Shared Services that it cannot resolve one new audit finding and that to do so would also require a whole-of-government approach—in that, Government websites can be hosted internally or externally and Shared Services is unable to enforce the same standard of security on externally hosted websites as it can for those that are hosted internally.<sup>107</sup>

3.27 The Committee acknowledges the work being done by Shared Services with respect to information technology controls and notes that it is constrained by its inability to enforce a whole-of-government approach. The Committee considers that the move towards a one-ACT Public Service for whole-of-government policy initiatives and implementation should reinforce the importance of using this model for the resolution of audit findings that require a whole-of-government approach.

## Recommendation 5

**3.28 The Committee recommends that the ACT Government utilise the one-ACT Public Service framework to ensure that unresolved audit findings (relating to environmental controls for information technology) that require a whole-of-government approach are promptly and appropriately addressed.**

3.29 The 2013–14 financial audit report found that Shared Service ICT had improved its Contract Management Guidelines by including procedures for regularly monitoring suppliers' compliance with their contracts. However, the Audit report was of the view that the Guidelines should be updated to include the: (i) current risk management practices used by Shared Services ICT; and (ii) regular review of expenditure records to identify new or amended ICT contracts under the responsibility of Shared Services ICT. Furthermore, these contracts should be reviewed to ensure that the services are being provided at the contracted price.<sup>108</sup>

3.30 Notwithstanding improvements were observed in 2013–14 with regard to Shared Services Contract Management Guidelines as well as improvements in the accuracy and completeness of the Contract Register, suggestions made by Audit concerning further updates to the Contract Guidelines should be implemented.

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<sup>106</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 58.

<sup>107</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 57.

<sup>108</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 59.

REVIEW OF AUDITOR-GENERAL'S REPORTS: NO. 7 OF 2014: 2013- 31  
14 FINANCIAL AUDITS; AND NO. 7 OF 2013: 2012-13 FINANCIAL  
AUDITS

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- 3.31 The Committee recommends, to the extent that work is not already taking place, that Shared Services ICT update its Contract Management Guidelines to include: (i) current risk management practices used by Shared Services ICT; (ii) regular review of expenditure records to identify new or amended ICT contracts under the responsibility of Shared Services ICT; and (iii) ICT contracts should be reviewed to ensure that the services are being provided at the contracted price.**

## THE TERRITORY FINANCIAL STATEMENTS

- 3.32 Both audit reports detail information about the net operating balance and operating surplus/deficit together with actual and projected cash flows across the 2013–14 and 2012–13 reporting periods.
- 3.33 Both audit reports also use a number of financial ratios to compare and investigate the relationships between different pieces of financial information across the reporting periods. This includes liquidity ratios in the context of assets to liabilities coverage.
- 3.34 The Committee notes that analysis as it relates to the aforementioned financial statement parameters in the 2013–14 financial audit report all advised that the figures did not take into account the impact of the Government’s Loose-fill Asbestos Insulation Eradication Scheme.

## RISK OF HIGHER THAN EXPECTED DEFICITS

- 3.35 The Committee notes that the Territory incurred a deficit in the net operating balance of \$309 million in 2013–14. While this amount is less than the budgeted amount of \$438 million, and the deficit of \$456 million incurred in 2012–13, the net operating balance has declined in recent years from a surplus of \$110 million in 2009–10. The Committee also notes that deficits are expected in the net operating balance for each of the forward years to 2017–18.<sup>109</sup>

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<sup>109</sup> ACT Auditor-General’s Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, pp. 68; 69.

3.36 The Committee draws attention to the following comment by the Auditor-General:

These planned deficits in the net operating balance over the forward years from 2014-15 to 2017-18 means that the Territory is exposed to large deficits if unexpected adverse events cause large negative fluctuations in revenue and expenses. These planned deficits do not, for example, take into account major negative financial effects of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.<sup>110</sup>

3.37 As to the impact of the implementation of the "Mr Fluffy" asbestos buyback scheme on the Territory's budget, the Committee notes the earlier advice of the Asbestos Taskforce—in that, the one-off size and cost of dealing with the "Mr Fluffy" legacy represents about a fifth of the ACT Government's annual budget. The cost of the Scheme is estimated to equate to approximately 22 per cent of ACT Government revenue. The estimated net cost of the Scheme is likely to be significant from the Territory's perspective. The currently expected net cost of between \$300 million and \$500 million represents approximately 10 per cent of the Territory's annual budget.<sup>111</sup>

#### BUDGET MANAGEMENT OF REPORTING AGENCIES

3.38 The Committee notes the Audit Office's finding that in 2013–14 a number of agencies did not achieve their budgeted results and draws the attention of reporting agencies to the Auditor-General's statement that:

The Territory's ability to achieve its budgeted financial results depends largely on individual agencies managing their finances within their individual budgets.<sup>112</sup>

3.39 While the Committee acknowledges that directorates and agencies may not meet budgets from time to time, it is critical that they remain vigilant in operating within budget and that they report any anticipated variances from budgeted revenue and expenditure.

## CONCLUSION

3.40 The Auditor-General's report on financial audits is an independent summary of: (i) the results of the annual program of audits of financial statements and reviews of statements of performance; (ii) assessment of the quality and timeliness of reporting by agencies; and (iii)

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<sup>110</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 69.

<sup>111</sup> *The ACT Government's Preferred Way Forward on Loose Fill Asbestos: Supporting Detail*, 28 October 2014, pp. 7–8.

<sup>112</sup> ACT Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits*, December 2014, p. 34.

major audit findings and details on progress made by agencies on addressing findings made in previous audits.

- 3.41 These reports are an effective means of overseeing the compliance and efficiency of directorates and agencies and those entities in which the Government has a direct financial interest.
- 3.42 These audit reports provide an opportunity for the Committee to examine and follow up issues which, in the normal course, would not come to notice. The Committee's examination of the audit findings therefore establishes a basis for the Assembly to hold the Government accountable for particular aspects of its administration. The Committee is therefore of the view that these yearly audit reports are important.
- 3.43 The Committee has made **six** recommendations in relation to its inquiries into Auditor-General's Report No. 7 of 2014: *2013–14 Financial Audits* and No. 7 of 2013: *2012–13 Financial Audits*.

Brendan Smyth MLA

Chair

19 May 2015

## Appendix A Recommendations of 2013–14 Financial Audits report

### **Recommendation 1—Status of Audit Findings**

Reporting agencies should implement effective processes for resolving audit findings in a timely manner.

### **Recommendation 2—Quality of Statements of Performance**

Reporting agencies should improve their statements of performance by providing: a) sufficient explanatory information on the definitions of accountability indicators, the targets set and how the results of the accountability indicators are measured; and b) clear and informative explanations of material variances from the planned targets.

### **Recommendation 3—Inclusion of Audited Documents in Annual Reports**

Reporting agencies should ensure that the printed and electronic (website) versions of annual reports include the correct version of their audited financial statements, reviewed statement of performance, audit report and report of factual findings.

### **Recommendation 4—Management of Access by Users**

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

### **Recommendation 5—Audit Logs**

Policies and procedures for the regular review of audit logs to identify errors, irregularities, fraudulent changes to systems and high risk transactions should be approved and implemented. The results of these reviews should be documented and reported to management.

### **Recommendation 6—Access to Key Systems, Applications and Data-Password Complexity**

The use of complex passwords should be automatically enforced by the computer system to prevent inappropriate and possibly fraudulent access to key systems applications and data.

**Recommendation 7—Business Continuity and Disaster Recovery Arrangements**

Disaster recovery arrangements, including back-up and recovery processes should be approved and then periodically tested to provide assurance that a system will be recovered and operations promptly resumed without the loss of data in the event of a disaster, disruption or other adverse event. The results of testing and the actions required to resolve any problems identified during this testing should be formally documented.

**Recommendation 8—Access to the ACT Government Network—Password Complexity**

The level of password complexity required by the ACT Government’s password standard to gain access to the ACT Government network should be automatically enforced by the computer system.

**Recommendation 9—Access to the ACT Government Network—Generic User Accounts**

Generic (shared) user accounts for key systems should be removed wherever possible. If the use of generic accounts is unavoidable, then the number of generic accounts should be minimised and passwords relating to these accounts frequently changed. Generic user accounts should be recorded in a register to monitor and track users who have access to these accounts, and records maintained of how often these passwords are changed.

**Recommendation 10—Change Management Processes**

Shared Services should regularly review business systems and review them against the approved original system design. Variations between the current state of the system and the approved original design should be investigated to check whether the variations are due to unauthorised changes or other reason(s).

**Recommendation 11—Vendor Support for Operating Systems**

To provide assurance that systems are protected from known security vulnerabilities, errors and performance issues, ACT Government agencies should ensure that all operating systems and servers are supported by the system vendor.

**Recommendation 12—Externally Hosted Websites**

The same level of security should be maintained and enforced on externally hosted websites as is currently enforced on internally hosted websites to guard against malicious attacks.

**Recommendation 13—Security of Information**

Agencies should be required to use the new security classification system including requirements relating to the restrictions on the access, storage, transmission and disposal of security classified information and performing regular reviews of audit logs covering the access, storage, transmission, transfer and disposal of security classified information.

**Recommendation 14—Alternative Information Technology Infrastructure Arrangements**

The information technology infrastructure supporting critical systems of each agency should be replicated at an alternative site. Disaster recovery plans for agencies should identify their alternative information technology infrastructure arrangements.

## Appendix B Recommendations of 2012–13 Financial Audits report

### Recommendation 1

Agencies should:

- promptly resolve audit findings and implement effective processes for monitoring their progress in resolving these findings; and
- refer audit findings in audit management reports to internal audit committees for monitoring and follow-up.

### Recommendation 2

Agencies should prepare high quality financial statements and give particular attention to ensuring that the information is clear, informative, accurate and complies with applicable reporting requirements.

### Recommendation 3

Agencies should prepare financial statements and statements of performance that are informative and contain concise and clear explanations of material variances from planned levels of performance.

### Recommendation 4

Agencies should prepare high quality statements of performance and give particular attention to ensuring that:

- the reported results of accountability indicators are subject to thorough checking process prior to the statement of performance being certified; and
- there is sufficient explanatory information on each accountability indicator and how it is measured disclosed in the budget paper and/or statements of intent and statement of performance.

### Recommendation 5

Agencies should submit their statements of performance to the Audit Office in accordance with the whole-of-government reporting timetable.

**Recommendation 6**

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

**Recommendation 7**

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

**Recommendation 8**

Approved and tested business continuity plans and/or disaster recovery procedures for key systems should be implemented.

**Recommendation 9**

Generic (shared) user accounts for key systems should not be used. 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.

**Recommendation 10**

The use of complex passwords should be enforced by the computer system to better control access to critical systems.

**Recommendation 11**

Consistent with well established practices of ACT Government agencies, a management discussion and analysis report for the Territory's financial statements should be prepared. This report should include concise and balanced information on the reported financial results including informative comparisons to budget estimates and prior year results, and be published along with the financial statements.