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THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT SUBMISSION TO THE *AUDITOR-GENERAL'S REPORT NO. 10 OF 2010: 2009-10 FINANCIAL AUDITS*

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INTRODUCTION

The Auditor-General released the *Auditor-General's Report No. 10 of 2010: '2009-10 Financial Audits'* (the Report) on 21 December 2010.

Qualifications

The Auditor-General issued 78 unqualified reports on agency financial statements. No qualified reports were issued.

Thirty reports of factual findings were issued on agency statements of performance. Three of these reports were qualified as some performance measures could not be measured as required by the *Financial Management Act 1996.*

Recommendations

The Auditor-General made 12 recommendations in the report. A whole of government response has been prepared and provided below to address these recommendations.

Other Issues

The Report notes there was an overall improvement in the quality of both financial statements and statements of performance compared to the previous year. The percentage of financial statements rated as 'good' or 'satisfactory' increased from 70 per cent to 83 per cent and the percentage of statements of financial performance rated the same increased from 64 per cent to 74 per cent. The percentage of agencies who submitted unsatisfactory statements of performance fell markedly from 18 per cent in 2008-09 to 7 per cent in 2009-10.

Compliance in providing financial statements and statements of performance to the Audit Office was good and all agencies placed their annual reports on relevant websites within legislated timeframes.

GOVERNMENT POSITION ON RECOMMENDATIONS/FINDINGS

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

Recommendation 1

Agencies should ensure that:

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

Government Position

Agreed.

Internal Audit Committees within agencies have existing mechanisms in place through which they ensure audit findings are monitored and resolved in a timely manner. Agencies also have additional internal processes in place to ensure that audit findings are referred to their Internal Audit Committees.

Recommendation 2

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

Government Position

Agreed.

It should be noted that the Auditor-General's Report states that there was an overall improvement in the quality of agency financial statements in 2009-10 with 83 per cent of statements being rated as good (compared to 70 per cent in 2008-09).

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

The Chief Minister's 2007-2010 Annual Report Directions also outline the legislative requirements for agencies to follow when preparing their annual financial reports. These Directions will be regularly reviewed and updated.

Recommendation 3

Agencies should improve the quality of their statements of performance. In particular, agencies should ensure that:

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

<u>Government Position</u>

Agreed.

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

The Department of Education and Training has now put in place a methodology to correctly report on the noted performance indicators. ACTION and the Department of Territory and Municipal Services will be implementing revised businesses processes and systems which will assist in the correct reporting of performance measures.

Treasury publishes a better practice guideline available to all agencies to assist in the preparation of statements of performance. This guideline includes the requirement to explain material variances from planned levels of performance.

Annual reviews of performance measures are also undertaken as part of the budget process and this practice will continue.

Improvement in the quality of statements of performance is an ongoing process considered by all agencies in the development of statements of performance.

Recommendation 4

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

Government Position.

Agreed.

Agencies review performance measures as part of the annual budget process. The practice of reviewing and refining performance measures will continue throughout future budget processes. Treasury's Better Practice Guideline on Statements of Performance require agencies to provide explanations for accountability indicators where either the terms used or methodology used might be either difficult to understand or open to interpretation. Treasury is also in the process of undertaking a review of guidelines which consolidates information on the performance framework into one place and which will further assist agencies in the development of meaningful and useful performance indicators.

The Chief Minister's Department (CMD) has reviewed and updated across government performance and accountability arrangements. This review resulted in the development of a consolidated Performance and Accountability Framework document to assist agencies in continuing to improve services provided to the community including through strengthening the quality of performance indicators and related targets. The framework is publically available on the CMD website.

As part of the implementation of the framework, the CMD has completed a review of strategic indicators with actions arising from this process to be considered and implemented as part of future budget processes. The strategic indicator review has been informed by specific expert advice on ACT performance and accountability settings and better practice, and are designed to complement Treasury guidelines.

Recommendation 5

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

Government Position

Agreed.

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

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

Future upgrades of software applications which are planned for 2011 will also address the monitoring of audit logs.

Recommendation 6

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

Government Position

Agreed.

Recent and planned upgrades to major software applications have improved agencies internal controls over applications.

Individual agencies identified in the Auditor-General's Report have undertaken to improve the monitoring of users' rights to applications and reporting of issues to management.

Recommendation 7

Agencies should develop and implement change management policies and procedures for significant computer information systems and applications.

The change management policies and procedures should address the documentation processes required for the approval of changes, testing of changes prior to implementation, identification of business risks and 'back-out plans' for each change.

Government Position

Agreed.

Agencies identified in the Auditor-General's Report have agreed to improve change management policies and procedures for significant information systems and applications.

Recommendation 8

Agencies should develop and implement policies and procedures for managing the removal of user access to applications and computer information systems.

Government Position

Agreed.

InTACT have existing processes in place to ensure the removal of user access to whole of government applications.

Agencies identified in the Auditor-General's Report who have in house applications will improve policies and procedures for managing the removal of user access.

Recommendation 9

To ensure activities by users can be traced to individual users, agencies should cease the use of any generic (shared) user access accounts and replace these with individual user accounts.

Government Position

Agreed-in-principle.

Recent and planned upgrades to major software applications have improved agency's internal controls over applications.

Individual agencies identified in the Auditor-General's Report have undertaken to review the use of generic user accounts following the full integration of new applications where possible. Where the discontinuation of generic user accounts is not possible, agencies will implement measures to mitigate the risk of unauthorised access, such as the review of access and activity logs on a regular basis.

Recommendation 10

Agencies should conduct regular tests of the recovery and restoration of backup data and document the results of testing and action taken to address weaknesses identified from these tests. These tests should be incorporated into the standard backup and recovery procedures for applications and data.

Government Position

Agreed.

InTACT has existing processes in place for the regular testing of recovery and restoration of data stored on the ACT Government network.

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

Recommendation 11

To reduce the risk of unauthorised access to systems and applications, agencies should configure their systems and applications so that:

- **accounts are locked after a specified number of incorrect logon attempts; and**
- **passwords are sufficiently complex and required to be changed on a regular basis.**

Government Position

Agreed.

Recent and planned upgrades to major software applications have improved agency's internal controls over applications.

Individual agencies identified in the Auditor-General's Report have undertaken to review the complexity of passwords and locking of accounts following the full integration of new applications.

Recommendation 12

Agencies should:

- **regularly update operating systems and applications with the latest critical patches; and**
- **remove any development tools from the production (live) environment.**

Government Position

Agreed.

InTACT maintains separate test and development environments available to agencies prior to the implementation of new software.

Agencies identified in the Auditor-General's Report have agreed to address these issues, the majority of which were addressed following the implementation of the updated Rego.act software in November 2010.