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THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT SUBMISSION TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

AUDITOR-GENERAL'S REPORT NO. 8 of 2007: "2006-07 FINANCIAL AUDITS"

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INTRODUCTION

On 6 December 2007 the Auditor-General's Report No. 8 of 2007: '*2006-07 Financial Audits*' was tabled in the Legislative Assembly.

New Audit Methodology

In conducting the 2006-07 financial audits, the Auditor-General's Office complied with new auditing standards issued in May 2006, for application from 1 July 2006, which introduced a new audit methodology. Under the new audit methodology the Auditor-General's Office is required to give greater attention to each agency's overall control environment, including computer information systems controls and concern/risk of fraud.

The application of these new standards has resulted in an increased emphasis of the Auditor-General's Office reporting of issues regarding:

- governance and control weaknesses;
- concerns/risks relating to fraud; and
- IT business process and control environment weaknesses.

The Auditor-General found that "adequate controls had been implemented over most aspects of IT operations", and made recommendations in the areas of business continuity planning, the management of changes to IT systems and control of the access to, and monitoring of, business applications.

InTACT, within the Shared Services Centre, is reviewing and updating the existing business continuity and disaster recovery plans associated with its ICT operations. Better control over the change environment associated with IT applications is being implemented via formal change control processes and systems within InTACT. Change control can be much more effectively managed with the centralisation of ICT responsibility brought about via the introduction of the Shared Services Centre.

The Auditor-General has also made specific recommendations related to four key business applications associated with revenue collection. These business applications are being reviewed and addressed by the responsible Departments with the assistance of InTACT.

Qualifications

The Auditor-General issued 64 audit opinions, of which only two were qualified. The qualified audit opinions were issued on the financial reports of ECOWISE Environmental Pty Ltd and ECOWISE Environmental (Victoria) Pty Ltd. The Auditor-General's Office was unable to ascertain the validity of a reallocation of expenses from these entities to their subsidiaries.

In addition, five of the 27 reports on factual findings were qualified by the Auditor-General, as one or more of the accountability indicators in the qualified reports were not able to be measured.

Recommendations and Highlights

There are 15 recommendations included in the Auditor-General Report. The Auditor-General also highlighted agency specific issues throughout the Report.

These recommendations and relevant highlights are discussed in further detail later in this Submission.

Other Issues

The Auditor-General notes that compliance with Treasury timetable for the provision of financial reports to the Audit Office has improved in recent years.

GOVERNMENT POSITION ON RECOMMENDATIONS/FINDINGS

The Auditor-General's Report (the Report) includes 15 recommendations (pages 5-7). Those recommendations, and a Government position on those recommendations, are outlined below.

Recommendation 1

Agencies should improve their annual financial reporting processes, including addressing changes to reporting requirements, improving disclosures and accounting for non-routine transactions.

<u>Government Position</u>

Agreed. The Government acknowledges the decrease in quality of financial reports presented for audit between 2004-05 and 2005-06, which was largely due to changed reporting requirements brought about by the introduction of Australian Equivalents to International Financial Reporting Standards. It should be noted, however, that there has been an improvement in the quality of financial reports presented for audit in 2006-07 (63 per cent), compared to 2005-06 (56 per cent).

The Government also acknowledges that further improvements can be made. To facilitate this, Treasury will continue to ensure that agencies are aware of the Model Financial Reporting publications released each year and the services offered by Treasury to provide guidance on specific accounting issues.

Recommendation 2

Agencies should improve the timeliness of their annual financial reporting by planning, designing and adequately resourcing their financial reporting functions.

Government Position

Agreed. Treasury will continue to work with agencies and the Auditor-General's Office to develop and agree on timeframes and reporting processes.

To facilitate an improvement in timeliness, Treasury provided a draft 2007-08 audit timetable to agencies in December 2007. This practice of sending an advance copy of the proposed audit timetable will be continued in future years to assist agencies with their individual planning processes.

Recommendation 3

Agencies should improve the quality of their statements of performance and ensure the statements are accurate, complete and meet the requirements of the *Financial Management Act 1996.*

Government Position

Agreed. Treasury will continue to work with agencies through annual budget processes to improve the quality of the presentation, disclosures and figures reported in their Statements of Performance.

Treasury will also ensure that agencies are advised through Treasury memoranda of the content requirements for the 2007-08 audit of agency Statements of Performance.

Agencies will ensure that budgeted performance measures can be reliably measured for the 2007-08 audit.

Recommendation 4

Agencies should improve the timeliness of their Statements of Performance by planning, designing and adequately resourcing their reporting functions to meet the required timeframes.

Government Position

Agreed. Treasury will continue to work with Agencies and the Auditor-General's Office to develop and agree on timeframes and reporting processes.

To facilitate an improvement in timeliness, Treasury provided a draft 2007-08 audit timetable to agencies in December 2007. This practice of sending an advance copy of the proposed audit timetable will be continued in future years to assist agencies with their individual planning processes.

Agencies will ensure appropriate planning and resource management is implemented to meet future audit timeframes.

Recommendation 5

Agencies should place their annual reports on the relevant website on the same day the printed copy is provided to the Legislative Assembly.

Government Position

Agreed. Agencies will be reminded through Treasury memoranda and the 2007-2010 Chief Ministers Annual Report Directions of the requirement to publish their annual reports on their websites on the same day the printed copy is provided to the Legislative Assembly.

Recommendation 6

Agencies should ensure that the correct version of the audited financial report and statement of performance is included in the printed and electronic versions of their annual reports.

<u>Government Position</u>

Agreed. Agencies will be advised, through Treasury memoranda, of the need to ensure quality assurance processes are in place to ensure that the correct versions of their audited financial reports are placed on their respective websites.

Recommendation 7

Agencies should approve, implement and monitor compliance with their risk and fraud risk management plans and keep these plans current.

<u>Government Position</u>

Agreed. Agencies identified by the Auditor-General's Office have committed to undertake a review of their risk and fraud risk management plans. Action plans to implement improved procedures are being developed by these agencies.

Recommendation 8

Agencies should approve their IT strategic plans and keep them current.

<u>Government Position</u>

Agreed. Agencies are currently reviewing existing plans to improve and update their IT strategic plans. Agencies, where relevant, are reviewing their plans in conjunction with InTACT to ensure consistency, completeness and appropriateness of strategic plans.

A process to ensure regular review of these plans will also be implemented by individual agencies in conjunction with InTACT.

Recommendation 9

Agencies should approve and test their business continuity and disaster recovery plans and keep them current.

Government Position

Agreed. InTACT, within the Shared Services Centre, is reviewing and updating the existing business continuity and disaster recovery plans associated with its ICT operations.

Other agencies, not reliant on InTACT, are also reviewing and updating their business continuity and disaster recovery plans.

Recommendation 10

Agencies should document the policies and procedures covering changes to applications operated by, and specific to, them.

Government Position

Agreed. Agencies identified by the Auditor-General's Office are currently improving documentation of policies and procedures covering changes to applications operated by, and specific to them.

Recommendation 11

Agencies should fully test changes to applications prior to their implementation, and segregate duties relating to the testing and implementation of changes.

Government Position

Agreed. The relevant agencies have all undertaken to, or are currently, improving their testing of applications.

Segregation of duties relating to the testing and implementation of changes will also be introduced where practicable.

Recommendation 12

Agencies should incorporate in their policies and procedures, guidelines relating to the use of IT equipment outside of ACT Government premises.

Government Position

Noted. InTACT already has guidelines in place regarding the use of IT equipment outside of ACT Government premises.

Recommendation 13

Agencies should regularly review the access granted to applications and data to ensure that access remains appropriate and current.

Government Position

Agreed. The agencies identified by the Auditor-General's Office have all undertaken to, or are currently, improving access policies and procedures.

Recommendation 14

Agencies should, where possible, eliminate the use of generic accounts to obtain access to, and perform activities on, IT systems and applications to enable activities to be traced to an individual.

Government Position

Agreed. The agencies identified by the Auditor-General's Office have all undertaken to, or are currently, reviewing the use of generic accounts. Agencies will reduce the use of generic accounts, where appropriate.

Recommendation 15

Agencies should establish effective log checking routines, and regularly review logs for the presence of errors and irregularities, including fraudulent changes to applications and data.

Government Position

Agreed. The agencies identified by the Auditor-General's Office have all undertaken to, or are currently, improving policies and procedures in relation to logs.

GOVERNMENT POSITION ON THE SIGNIFICANT FINDINGS HIGHLIGHTED IN THE AUDITOR-GENERAL'S REPORT

The Auditor-General's Report highlights several issues relating to the financial performance of Government agencies.

This section provides comment on agency specific highlights identified in the Auditor-General's Report.

The discussion below excludes highlights relating to the need to improve IT business processes and control environment weaknesses, as they have been addressed in the responses to the Auditor-General's recommendations.

Where agency specific highlights have been appropriately addressed in the Auditor-General's Report, they have not been commented on further in this section of the Report.

The Territory's Financial Report

The Auditor-General's Report generally provides positive comments with regard to the Territory's financial performance for 2006-07, and both the strength of the Territory's financial position as at 30 June 2007 and the forward estimates to 30 June 2011.

ACT Health

An unqualified audit opinion was issued.

Audit Highlight (page 45)

A qualified report of factual findings was issued on ACT Health's Statement of Performance because two performance measures could not be independently verified due to insufficient supporting documentation.

The two accountability indicators unable to be verified were:

- *Mental Health Services - Percentage of Clients with Outcome Measures Completed; and*
- *Community Health Services - Mean Waiting Time for Clients on the Dental Services Waiting List.*

Government Position

ACT Health has made adjustments to the process for independently verifying the performance measures for Dental Health and Mental Health. Internal Audit will be conducting audits prior to the next scheduled annual audit by the Auditor-General's Office to ensure that evidence for these measures meet the Auditor-General's requirements.

Audit Highlight (page 45)

ACT Health has addressed most of the audit findings reported in 2005-06 relating to weaknesses in the control over, and reporting of, employee liabilities and expenses. However, ACT Health has not implemented the consistent and documented review of salary reports.

Government Position

ACT Health Internal Audit is currently finalising a report addressing the consistency and documentation of the review of salary reports.

ACT Public Cemeteries Authority

An unqualified audit opinion was issued.

Audit Highlight (page 48)

The Auditor-General's Office found that the Authority's governance arrangements and internal controls could be improved.

Government Position

The Authority has undertaken to improve governance arrangements and internal controls.

Audit Highlight (page 48)

The Auditor-General's Office found that the Authority did not have a Governing Board for the period from 16 March 2007 to 6 August 2007. The Authority was therefore unable to exercise its functions as effectively and efficiently as intended under the Act.

Further, there was a breach of Section 93(2)(a) of the *Financial Management Act 1996*, which requires the Governing Board to meet at least once every three months.

Government Position

The Authority will improve procedures to ensure this does not recur in the future.

Cleaning Industry Long Service Leave Authority

An unqualified audit opinion was issued.

Audit Highlight (page 69)

A qualified report of factual findings was issued on the Authority's Statement of Performance in respect of performance indicators that were not measured or not capable of being independently verified.

Government Position

The Authority will improve processes to enable these indicators to be measured reliably in the future.

Audit Highlight (page 69)

The Authority did not have a Chair for the 14-month period from 12 January 2006 to 29 March 2007.

Government Position

The Authority has engaged a consultant to provide advice on corporate governance arrangements. The consultant will make recommendations on areas where the Authority needs to improve governance arrangements.

A business analyst will also be appointed to assist with future compliance.

Construction Industry Long Service Leave Authority

An unqualified audit opinion was issued.

Audit Highlight (page 71)

A qualified report of factual findings was issued on the Authority's Statement of Performance in respect of performance indicators that were not measured or not capable of being independently verified.

Government Position

The Authority will improve processes to enable these indicators to be measured reliably in future.

Audit Highlight (page 71)

The Authority did not have a Chair for the 11-month period from 12 January 2006 to 18 December 2006.

Government Position

A consultant has been engaged by the Authority to provide advice on corporate governance arrangements. The consultant will make recommendations on areas where the Authority needs to improve governance arrangements.

A business analyst will also be appointed to assist with future compliance.

ECOWISE

A qualified audit opinion was issued.

Audit Highlight (page 77)

The audit reports were qualified because the Auditor-General's Office was unable to ascertain the validity of a reallocation of expenses from ECOWISE Environmental Pty Ltd and ECOWISE Environmental (Victoria) Pty Ltd to their subsidiaries.

Government Position

It should be noted that these audit qualifications relate to transactions within the group, and therefore had no impact on the reported financial position of the consolidated group.

As indicated in the Auditor-General's Report, ECOWISE is continuing to strengthen internal controls.. ECOWISE also intends to address all audit findings and associated recommendations during 2007-08.

Justice and Community Safety

An unqualified audit opinion was issued.

Audit Highlight (page 94)

A qualified report of factual findings was issued on the Department's Statement of Performance because one performance indicator was not measured.

The accountability indicator not verified was: 'An increase in workers compensation compliance'.

Government Position

This measure was not verified due to the discovery of corrupted data from the Accident Information Management System (AIMS) database.

The Department has now corrected the error. This indicator will be able to be verified appropriately in future.

Land Development Agency (Including Land Joint Ventures)

An unqualified audit opinion was issued.

Audit Highlight (page 97)

The Land Development Agency's reporting and accounting practices should be improved.

Government Position

The Land Development Agency is currently reviewing policies and improving financial reporting processes. Appropriate improvements will be implemented prior to the preparation of the 2007-08 financial report.

Legislative Assembly Secretariat

An unqualified audit opinion was issued.

Audit Highlight (page 104)

Weaknesses were identified in the Secretariat's controls, particularly in relation to the payroll, payments and related IT systems.

Government Position

The Secretariat is currently implementing some changed arrangements for the delivery of its finance and accounts functions. A review and update of internal controls will form part of this process.

Totalcare

An unqualified audit opinion was issued.

Audit Highlight (page 122)

Totalcare recognised a liability of $17.3 million at 30 June 2007 for the estimated amount of superannuation contributions owing in respect of approximately 1,200 former employees who were incorrectly exited from the Commonwealth Superannuation or Public Sector Superannuation Schemes.

The best available estimate of the superannuation liability as at 30 June 2007 is unchanged from the previous year's estimate. The final amount of this liability is not yet known and may vary significantly from this estimate.

Government Position

Totalcare has made significant progress throughout the year in relation to the superannuation issue, however, is unable to quantify its liabilities beyond the original estimate. By agreement with the external auditors, the Board of Totalcare will review its position on restating its original estimate of superannuation liability at the end of the 2007-08 financial year. However, no restatement will be made unless, and until, sufficient settlements have been secured to permit a feasible estimation in accordance with the accounting standards.

The Government will continue to provide periodic updates on status of the outstanding superannuation liability.