ACT
Government

2012

THE LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

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

30·3·12
Authorised for publication

Presented By:
Andrew Barr MLA
TREASURER

INTRODUCTION

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

Qualifications

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

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

Recommendations

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

Other Issues

The Report notes there was no significant change in the quality of the financial statements, however, the quality of the statements of performance declined significantly as compared to the previous year.

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

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

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

GOVERNMENT POSITION ON RECOMMENDATIONS/FINDINGS

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

Recommendation 1

Agencies should ensure that:

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

Government Position

Agreed.

Internal Audit Committees within agencies have existing mechanisms in place through which they ensure audit findings are monitored on a regular basis and resolved in a timely manner. Additional internal processes are also in place to ensure that audit findings are referred to Internal Audit Committees and tracked until completed.

Recommendation 2

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

Government Position

Agreed.

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

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

Recommendation 3

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

<u>Government Position</u>

Agreed.

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

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

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

Recommendation 4

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

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

<u>Government Position</u>

Agreed.

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

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

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

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

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

Recommendation 5

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

Government Position

Agreed.

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

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

Recommendation 6

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

Government Position

Agreed.

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

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

Recommendation 7

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

Government Position

Agreed.

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

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

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

Recommendation 8

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

Government Position

Agreed.

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

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

Recommendation 9

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

<u>Government Position</u>

Agreed-in-principle.

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

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

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

Recommendation 10

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

<u>Government Position</u>

Agreed-in-principle.

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

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

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

Recommendation 11

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

Government Position

Agreed.

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

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

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

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

Recommendation 12

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

Government Position

Agreed.

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

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