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**THE LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY**

GOVERNMENT SUBMISSION TO THE *AUDITOR-GENERAL'S REPORT NO. 7 OF 2013: 2012-13 FINANCIAL AUDITS*

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INTRODUCTION

The Auditor-General released Report No. 7 of 2013: *'2012-13 Financial Audits'* (the Report) on 16 December 2013.

Qualifications

The Auditor-General issued 74 unqualified reports on agency financial statements. No qualified opinions were issued.

Thirty reports of factual findings were issued on agency statements of performance. None were qualified.

Recommendations

The Auditor-General made 11 recommendations in the Report. A whole of government response has been prepared and provided below to address these recommendations.

Other Issues

The Report notes that there was a slight increase in the quality of the financial statements rated as good/satisfactory from 72 per cent 2011-12 to 77 per cent in 2012-13.

The Audit Office found the timeliness of financial statements remained consistent with 89 per cent compliance with the whole-of-government reporting timetable in 2012-13, compared to 90 per cent in 2011-12.

GOVERNMENT POSITION ON RECOMMENDATIONS/FINDINGS

The Government's responses to each of the 11 recommendations are outlined below.

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.**

Government Position

Agreed.

Processes and practices exist within agencies to ensure audit findings are monitored and resolved. This applies only to those findings agreed to be resolved by agencies.

This process includes monitoring and reporting to Internal Audit Committees.

Recommendation 2

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

Government Position

Agreed.

The Government notes that the vast majority of financial statements were clear, accurate and informative. No qualifications were issued.

The Auditor-General's Report states that the overall quality of financial statements increased in 2012-13 with the proportion of reports rated as good or satisfactory rising to 77 per cent from 72 per cent in 2011-12.

Internal control mechanisms continue to exist within agencies to monitor the quality of financial statements. Internal Audit Committees continue to be responsible for monitoring and reviewing the quality of these statements.

Model financial statements also continue to be published by the Chief Minister and Treasury Directorate (CMTD) to assist agencies in the production of quality financial statements that comply with relevant reporting requirements.

Recommendation 3

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

Government Position

Agreed.

The Government again notes that the Auditor General concluded that 77 per cent of all reports were rated as good or satisfactory.

Agencies will continue preparing financial statements and statements of performance that contain clear explanations of material variances. In addition, a number of guidelines are published by CMTD to assist in this practice.

Recommendation 4

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

- **the reported result of accountability indicators are subject to a 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 papers and/or statement of intent and statement of performance.**

Government Position

Agreed.

Agencies will continue to focus on producing high quality statements of performance.

CMTD will continue to assist agencies in this area through the publication of better practice guidelines and working with agencies to improve the quality of performance measures through the budget process.

Recommendation 5

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

Government Position

Agreed.

The Government notes that the Report indicates that 89 per cent of agencies fully complied with the whole of government reporting timetable.

Recommendation 6

Approved policies and procedures which require the regular review of audit logs for errors, irregularities and fraudulent changes to systems.

The results of this review should be documented and reported to management.

Government Position

Agreed in part.

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.

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.

Government Position

Agreed.

Agencies are progressing work in this area including the implementation of policies and procedures to review user access.

Recommendation 8

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

Government Position

Agreed.

Agencies that do not have an approved and tested business continuity plan will be encouraged to implement and finalise such a plan in 2013-14.

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.

Government Position

Agreed in part.

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 identity levels of generic user access.

Recommendation 10

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

Government Position

Agreed in part.

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.

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 the budget estimates and prior year results, and be published along with the financial statements.

Government Position

Agreed.

The Government notes that this high level information is currently available in similar publications including the June Quarter Consolidated Financial Report and the Uniform Presentation Framework and Loan Council Allocation Outcome Report.

CMTD will prepare a high level management discussion and analysis for inclusion with the 2013-14 Consolidated Annual Financial Statements.