

REVIEW OF AUDITOR-GENERAL'S REPORT No. 10 OF 2015:
2014–15 FINANCIAL AUDITS

STANDING COMMITTEE ON PUBLIC ACCOUNTS

APRIL 2016

REPORT 26

COMMITTEE MEMBERSHIP

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Ms Joy Burch MLA	Deputy Chair from 23 February 2016 Member from 21 January 2016 to 23 February 2016
Ms Nicole Lawder MLA	Member from 8 August 2013
Mr Jayson Hinder MLA	Member from 15 March 2016

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Ms Meegan Fitzharris MLA	Member from 10 February 2015 to 21 January 2016
Ms Yvette Berry MLA	Member from 5 August 2014 to 10 February 2015
Dr Chris Bourke MLA	Member to 5 August 2014
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Mr Alistair Coe MLA	Member from 6 June to 8 August 2013

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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 8th 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;¹

TERMS OF REFERENCE

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

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

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RECOMMENDATIONS

RECOMMENDATION 1

- 3.5 The Committee recommends that the ACT Government detail in the 2016–17 Budget—(i) how it intends to address the budgeted deficit; and (ii) the timetable to return the Budget to surplus.

RECOMMENDATION 2

- 3.9 The Committee recommends that ACT Government directorates and agencies should ensure the provision of complete statements of performance and full disclosure as required by the *Financial Management Act 1996*. In doing so, directorates and agencies should ensure the following—the provision of:
- (i) clear definitions for accountability indicators and related targets;
 - (ii) improved accuracy with regard to reporting of results for accountability indicators;
 - (iii) more information on how reported results are measured—in particular, explanations of differences between actual results and planned targets; and
 - (iv) clear and informative explanations for material variances from the planned targets.

RECOMMENDATION 3

- 3.10 The Committee recommends that ACT Government directorates and agencies should ensure complete reporting with all compliance requirements as specified in the Annual Report Directions.

RECOMMENDATION 4

- 3.21 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.

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 finding 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 (Legislative Assembly).²

1.2 With regard to the legislative basis for this annual program of financial audits and reviews of statements of performance, the 2014–15 financial audit report states:

The *Financial Management Act 1996* requires the Audit Office to audit the financial statements and review the statements of performance of ACT Government directorates and authorities.

The Audit Office also performs audits under other legislation or reporting requirements, such as the *Corporations Act 2001*, joint venture agreements, trust deeds and Commonwealth Government funding agreements.³

1.3 Auditor-General's report No. 10 of 2015: *2014–15 Financial Audits* (the 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 2014, 30 June 2015 and for periods within the 2014–15 financial year; 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.⁴

1.4 The Audit report was presented to the Legislative Assembly on 18 December 2015.

1.5 In accordance with the resolution of appointment of the Standing Committee on Public Accounts (the Committee), the report was referred on 18 December 2015 to the Committee for examination.

TERMS OF REFERENCE

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

² ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 1.

³ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 15.

⁴ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 1.

CONDUCT OF INQUIRY

- 1.7 On 22 March 2016 the Committee received a briefing from the Auditor-General in relation to the Audit report.
- 1.8 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.⁵
- 1.9 In accordance with these procedures, the Committee resolved to conclude its consideration of the Audit report with a summary report.
- 1.10 The Committee met on 21 April 2016 to discuss the Chair's draft report which was adopted on 21 April 2016.

STRUCTURE OF THE REPORT

- 1.11 The Committee's report is divided into four sections:
- Chapter 1—Introduction and conduct of inquiry
 - Chapter 2—Audit background and findings
 - Chapter 3—Committee comment
 - Chapter 4—Conclusion

ACKNOWLEDGEMENTS

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

⁵ 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

2 AUDIT BACKGROUND AND FINDINGS

- 2.1 This chapter presents an overview of the background to, and key findings of, the 2014–15 financial audit report.

AUDIT BACKGROUND AND OBJECTIVES

- 2.2 The objective of the Audit was 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 other entities in which the ACT Government has a direct financial interest.⁶

- 2.3 The 2014–15 financial audit report sets out findings across five audit 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 selected ACT Government and other entities.
- 2.4 A summary of audit conclusions and findings for the Audit are outlined below.

AUDIT CONCLUSIONS

- 2.5 The main conclusions of the Audit are summarised following.

RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS

- 2.6 According to the Audit report:

All 70 financial statements audited in 2014–15 materially complied with the relevant reporting and accounting requirements and presented a true and fair view of the financial position and performance of the reporting agencies.⁷

- 2.7 As a result no qualified audit reports were issued in 2014–15. This was an improvement on results for 2013–14 when five qualified audit reports were issued.⁸

⁶ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 1.

⁷ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 18.

⁸ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 18.

RESULTS OF THE REVIEWS OF STATEMENTS OF PERFORMANCE

2.8 According to the Audit report:

The Audit Office completed the review of 30 statements of performance of directorates (17) and authorities (13) in 2014–15.⁹

2.9 Of these reviews, 29 were unqualified reports of factual findings and one was a qualified report of factual findings.

AUDIT FINDINGS

2.10 The Audit report provided key findings to support its conclusions in relation to each of the five audit themes:

- results of the financial audit program;
- audit findings;
- computer information systems;
- the Territory's financial statements; and
- audit results and findings on government agencies and other entities.

2.11 As all six of the Audit recommendations were concerned with computer information systems, further detail on the main findings as they relate to this audit theme is set out below. Further detail on the main findings as they relate to each of the remaining four audit themes can be accessed in the Audit report.¹⁰

COMPUTER INFORMATION SYSTEMS

2.12 This section summarises audit findings in relation to environment controls and application controls in place for computer information systems. Environment controls include automated and manual procedures which are managed by Shared Services for most reporting agencies. Application controls are included in an application to control entered and processed data, and manage user access and processes for making changes to applications.¹¹

2.13 In the Audit, matters covered regarding environment controls included: governance arrangements; information security management processes; business continuity and disaster recovery arrangements; change management processes; contract management arrangements;

⁹ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 19.

¹⁰ Available at: <http://www.audit.act.gov.au/auditreports/reports2015/Report%20No%2010%20of%202015%20-%202014%2015%20Financial%20Audits.pdf>

¹¹ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 33.

and project management arrangements. Matters relating to application controls included: data processing controls; information security management processes; business continuity and disaster recovery arrangements; and change management processes.¹²

ENVIRONMENT CONTROLS

- 2.14 The Audit concluded that while environment controls were assessed as 'satisfactory', improvements were required in several areas.¹³

GOVERNANCE ARRANGEMENTS

SYSTEM VENDOR SUPPORT FOR OPERATING SYSTEMS

- 2.15 The Audit found that as system vendor support is only available for a limited time, Shared Services has:
- developed and approved plans and strategies to anticipate any future loss of support for operating systems;
 - upgraded its operating systems for which vendor support had ceased; and
 - provided regular updates to Government agencies on critical systems and applications that were operating without vendor support and sought to raise agency awareness of the associated risks.¹⁴
- 2.16 However, the Audit also found that 'several ACT Government network servers ...use operating systems which are no longer supported by the system vendor.' The advice of Shared Services is that 'it cannot require agencies to upgrade their operating systems which do not have vendor support.'¹⁵

EXTERNALLY HOSTED WEBSITES

- 2.17 The Audit found that Shared Services undertakes quarterly tests of internally hosted websites to assess their strength against malicious attacks but advised that it was unable 'to impose the same level of security on websites which are maintained on infrastructure that is not owned or operated by the ACT Government.'¹⁶

¹² ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, pp. 40; 56.

¹³ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 40.

¹⁴ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 33.

¹⁵ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 34.

¹⁶ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 34.

ALTERNATIVE INFORMATION TECHNOLOGY INFRASTRUCTURE ARRANGEMENTS

- 2.18 The Audit found that not all critical systems requiring a high level of availability have alternative information technology infrastructure (e.g. data centre) arrangements. The Audit observed that this presents a risk that information technology infrastructure will not always be available in a timely manner.¹⁷
- 2.19 The Auditor-General noted that Shared Services advised that it was unable to 'require ACT Government agencies to have alternative information technology infrastructure ... arrangements for their critical systems.'¹⁸

SHARED SERVICES' QUALITY MANAGEMENT SYSTEM

- 2.20 The Audit found that documents in Shared Services' Quality Management System 'were not reviewed and updated in accordance with required timeframes.' The Audit noted that when this happens, 'there is a risk that the documentation in the Quality Management System will not reflect the procedures, processes and practices that are being used.'¹⁹

INFORMATION SECURITY MANAGEMENT PROCESSES

PASSWORD CONTROLS

- 2.21 The Audit noted that Shared Services implements the Government Password Standard which requires users to use a ten digit password comprised of different letters, numbers and characters. Also, Shared Services regularly audits the complexity of passwords for compliance with this Standard. This reduces the risk of inappropriate access—including unauthorised or fraudulent access—to the Government network, applications and data.²⁰

SECURITY OVER ACCESS TO DATA CENTRES

- 2.22 The Audit found that Shared Services undertook a review of access by its staff to data centres. The aim was to remove access by staff that no longer needed it and to restrict access by staff to those areas of the data centres that were necessary for the performance of their duties. It was found that 23 per cent of staff at one centre, and 22 per cent of staff at the other, had access even though they were no longer employed by Shared Services. It was also found that an excessive number of spare access passes were being kept for temporary use. The Audit found that this presented a risk of irregular access to data centres.²¹

¹⁷ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 34.

¹⁸ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 34.

¹⁹ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 34.

²⁰ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 35.

²¹ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 35.

ACCESS TO THE ACT GOVERNMENT NETWORK

- 2.23 The Audit found a number of weaknesses presenting a risk of unauthorised access to the Government network. These included that Shared Services' review of privileged user accounts only covered user accounts in the Shared Services operations team and not those in other areas of Government. In addition, it was found that some privileged accounts were not required to have a password when the user account was created. Also, it was found that a fifth of user accounts were not used in 2014–15, indicating that these accounts were not needed and should have been deactivated. The Audit also found that Shared Services did not undertake six-monthly reviews of standard user access or a review of active generic accounts.²²

MANAGEMENT OF PATCHES TO APPLICATIONS

- 2.24 The Audit found that weaknesses in the management of patches to applications present 'a risk that ACT Government systems will be susceptible to security vulnerabilities and of data being lost through cyber security intrusions.' Weaknesses identified in the Audit included:
- while Shared Services maintained a sound approach to patching operating systems, applications were not routinely patched;
 - there was no documented or defined patch management strategy; and
 - routine scanning of key financial systems to identify security vulnerabilities was not undertaken.²³

WHITELISTING OF APPLICATIONS

- 2.25 The Audit found that since Shared Services 'does not have a strategy for the whitelisting of applications on server or desktop operating environment in the ACT Government network' there is 'a risk that systems may be compromised by the exploitation of vulnerabilities or introduction of malicious programs (viruses).'²⁴

SECURITY OF INFORMATION

- 2.26 The Audit found that Shared Services commenced a trial of 'a document security classification system for Microsoft Office documents' and it was expected that this would be available for Government agencies in July 2014. The Audit also found that while the system is available, its application has not been mandated in all government agencies. The Audit recommended a

²² ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, pp. 35–36.

²³ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 36.

²⁴ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 36.

whole-of-government policy 'so that the new security classification system is effectively implemented by ACT Government agencies.'²⁵

BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

- 2.27 The Audit found that in order 'to facilitate the continuation of operations and access to data' Shared Services ICT 'performed backup and recovery procedures.' However, it also found that periodic testing of the restoration of backup files was not undertaken, and that 'disaster recovery exercises were not undertaken for applications assessed to be 'government-critical' or 'business-critical' in 2014–15.'²⁶
- 2.28 The Audit also noted advice from Shared Services that it 'cannot require ACT Government agencies that 'own' the critical systems to implement effective business continuity arrangements.' The Audit recommended 'a whole of government approach' so that business continuity arrangements provide assurance that critical systems are available when required, operate appropriately, and are 'restored in a complete and timely manner in the event of a disaster, disruption or other adverse event.'²⁷

CHANGE MANAGEMENT PROCESSES

- 2.29 The Audit found 'a risk of erroneous or fraudulent changes being made to critical hardware or software' as Shared Services did not 'log changes to critical software or hardware for high risk or suspicious changes' or review such changes 'to check that all changes were authorised.'²⁸

CONTRACT MANAGEMENT ARRANGEMENTS

- 2.30 According to the Audit, 'an annual analysis of expenditure records is occurring to identify new or amended ICT contracts under the responsibility of the ICT Contract and Licensing section.' However, the Audit also found that 'the current contract management guidelines and procedures have not been updated to provide guidance on the need for this analysis.'²⁹

PROJECT MANAGEMENT ARRANGEMENTS

- 2.31 The Audit did not find any 'significant weaknesses in project management arrangements used to initiate, plan and complete an information technology project in 2014–15.'³⁰

²⁵ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 36.

²⁶ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 37.

²⁷ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 37.

²⁸ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 37.

²⁹ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 37.

³⁰ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 37.

APPLICATION CONTROLS

DATA PROCESSING CONTROLS

- 2.32 The Audit did not find any significant weaknesses in data processing controls.³¹

INFORMATION SECURITY MANAGEMENT

MANAGEMENT OF USER ACCESS

- 2.33 The Audit found that the management of user access for Maze, MyWay, Cashlink and Territory Revenue System improved. However, it also found that improvements were required in the management of user access for the Oracle Financials application 'by reducing the number of logons for three individual users from two to one.'³²

REVIEWING OF AUDIT LOGS

- 2.34 The Audit identified improvement in the processes used for reviewing audit logs for several applications—such as Maze, Cashlink, MyWay, Territory Revenue System and Homenet. However, the Audit recommended that improvements be made in practices for reviewing audit logs for both Community 2011 and Oracle Financials. These are set out below.
- In relation to Community 2011, the Audit recommended that practices be improved by 'ensuring that the System Security Plan defines the requirements for logging and monitoring of changes to the database server and having approved procedures for the review of audit logs.'
 - With regard to Oracle Financials, the Audit recommended that 'a team that is independent of the privileged users' log the activities of privileged users and routinely monitor their financial transactions. The Audit also recommended that in order 'to minimise the risk of users being able to perform incompatible functions' that there be 'independent monitoring of the creation of user accounts and changes to user roles and authorisations for privileged users in the Financial Applications Support Team.'³³

PASSWORD CONTROLS OVER ACCESS TO KEY SYSTEMS, APPLICATION AND DATA

- 2.35 The Audit found that in 2014–15, the Chief Minister, Treasury and Economic Development Directorate 'reduced the risk of irregular access, which may be erroneous or fraudulent, to the

³¹ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 38.

³² ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 38.

³³ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 38.

TM1 application and data by increasing the level of password complexity required to access TM1 to comply with the ACT Government Password Standard.’³⁴

BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS (AS PER APPLICATION CONTROLS)

2.36 The Audit found that three directorates ‘should improve their processes so that their business continuity plans and disaster recovery arrangements are effective.’ This included for:

- rego.act—having an approved and tested business continuity and disaster recovery plan;
- Community 2011, Territory Revenue System and Homenet—testing the restoration of data from backup files; and
- MyWay and TM1—ensuring that business continuity and disaster recovery plans reflect current recovery arrangements, and that these are updated, approved and tested.³⁵

CHANGE MANAGEMENT PROCESSES

2.37 The Audit found that new procedures for making changes to MyWay were implemented by the Territory and Municipal Services Directorate. Specifically, the implementation of a plan for testing these changes was accompanied by documentation and recording of testing outcomes for MyWay. The Audit found that this ‘reduces the risk of changes to MyWay not operating as intended and disruption to services that rely on MyWay.’ However, the Audit found, in relation to Oracle Financials, that ‘Change management requests for changes...were not always tracked prior to the implementation of the change.’ It found that this presents a risk ‘that the changes made in Oracle Financials may not have been successfully tested prior to their release into production’ and of ‘Oracle Financials not operating as intended and of disruption to operations that rely on Oracle Financials.’³⁶

AUDIT RECOMMENDATIONS

2.38 The Audit made six recommendations relating to significant findings set out in the Audit report. All recommendations concerned computer information systems.

2.39 These recommendations are reproduced in full at **Appendix A**. Table 2.1 provides a summary of the audit recommendations.

³⁴ ACT Auditor-General’s Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 38.

³⁵ ACT Auditor-General’s Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 39.

³⁶ ACT Auditor-General’s Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 39.

2.40 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 submission³⁷ to the Committee in response to each audit report (three months after presentation).

Table 2.1—Summary of 2014–15 financial audit recommendations and broad coverage

Audit theme	Recommendation number and broad coverage	Government position (as per response tabled 5 April 2016)
Computer information systems	R1—System vendor support for operating systems	Agreed
	R2—Externally hosted websites	Agreed
	R3—Alternative information technology infrastructure arrangements	Agreed-in-principle
	R4—Security of information	Agreed
	R5—Business continuity and disaster recovery arrangements	Agreed
	R6—Business continuity and disaster recovery arrangements	Agreed

GOVERNMENT RESPONSE

2.41 The Government tabled its response to the Audit report³⁸ on 5 April 2016.³⁹ In its response, the Government agreed with five recommendations and agreed-in-principle with one recommendation.⁴⁰

³⁷ The discontinuation of the provision of a government submission to the Committee was replaced with the tabling of a government response to each respective audit report (four months after presentation).

³⁸ Presented 18 December 2015.

³⁹ Available at: http://www.parliament.act.gov.au/_data/assets/pdf_file/0009/849294/2015-Government-Response-to-AG-Report-No-10-of-2015-2014-15-Financial-Audits.pdf

⁴⁰ ACT Government. (2016) Response to Auditor-General's report No.10 of 2015: *2014–15 Financial Audits*, 5 April.

3 COMMITTEE COMMENT

- 3.1 The Audit report provides a summary of the results of the annual program of audits of financial statements and reviews of statements of performance for 2014–15 and an assessment of the quality and timeliness of reporting by agencies. It also provides a summary of major audit findings and details on progress made by agencies on addressing findings made in previous audits.
- 3.2 In considering the Audit report and its findings, the Committee is of the view that three substantive areas warrant further comment—findings as they relate to: (i) the Territory's financial statements and financial position; (ii) audits of financial reports and reviews of statements of performance; and (iii) information technology governance and controls. Comment against each of these areas is set out below.

THE TERRITORY'S FINANCIAL STATEMENTS AND FINANCIAL POSITION

- 3.3 The Committee notes that the key findings of the Audit regarding the Territory's financial statements and financial position are concerned with the:
- financial sustainability of the Government's strategies and policies as the Territory incurred a deficit in the net operating balance (that is, expenses exceeded revenue) of \$646 million in 2014–15. This was greater than both the budgeted deficit of \$537 million as well as the prior year's deficit of \$309 million⁴¹; and
 - capacity of the Government to meet its financial obligations (as at 30 June 2015), including unfunded superannuation liabilities (\$5 158 million) and repaying borrowings (\$4 593 million).⁴²
- 3.4 According to 2014–15 Budget estimates, an operating surplus is expected in 2016–17 (\$17 million) and again in 2018–19 (\$188 million).⁴³ Notwithstanding, this depends on achieving planned reductions in deficits incurred in the net operating balance; and generating increases in other economic flows. However, if unexpected adverse events occur, the Territory will be exposed to a risk of incurring further deficits.⁴⁴

⁴¹ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 65.

⁴² ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 68.

⁴³ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, p. 71.

⁴⁴ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015, pp. 71–72.

Recommendation 1

- 3.5 The Committee recommends that the ACT Government detail in the 2016–17 Budget— (i) how it intends to address the budgeted deficit; and (ii) the timetable to return the Budget to surplus.**

AUDITS OF FINANCIAL REPORTS AND REVIEWS OF STATEMENTS OF PERFORMANCE

- 3.6 In its report inquiring into 2014–15 Annual reports (tabled 10 March 2016), the Committee considered the findings of the Audit report as they related to audits of financial reports and reviews of statements of performance (including comparisons with previous years) for the 2014–15 period for the following matters:
- timeliness of access—electronic versions of annual reports;
 - inclusion of correct versions of audited documents;
 - timeliness of financial reporting processes;
 - quality of statements of performance; and
 - usefulness of performance measures/accountability indicators.
- 3.7 In its report considering referred 2014–15 annual reports, the Committee made comment (and related recommendations) concerning the above compliance parameters for the 2014–15 reporting period (refer Chapter 3—Report on 2014–15 Annual Reports).⁴⁵
- 3.8 The Committee restates its recommendations concerning compliance parameters for the 2014–15 reporting period.

Recommendation 2

- 3.9 The Committee recommends that ACT Government directorates and agencies should ensure the provision of complete statements of performance and full disclosure as required by the *Financial Management Act 1996*. In doing so, directorates and agencies should ensure the following—the provision of:**
- (i) clear definitions for accountability indicators and related targets;**
 - (ii) improved accuracy with regard to reporting of results for accountability indicators;**
 - (iii) more information on how reported results are measured—in particular, explanations of differences between actual results and planned targets; and**
 - (iv) clear and informative explanations for material variances from the planned targets.**

⁴⁵ Tabled 10 March 2016—available at: http://www.parliament.act.gov.au/in-committees/standing_committees/Public-Accounts/annual-and-financial-report-2014-15/report?inquiry=788708

Recommendation 3

3.10 The Committee recommends that ACT Government directorates and agencies should ensure complete reporting with all compliance requirements as specified in the Annual Report Directions.

INFORMATION TECHNOLOGY GOVERNANCE AND CONTROLS

- 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 that coverage of all six audit recommendations⁴⁶ relate to computer information systems.
- 3.13 The Committee also 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 As to the importance of a robust IT operating environment in the contemporary public sector, a former Commonwealth Auditor-General has commented that:
- While there have been improvements in agencies' control environments over the years, there are ongoing issues with legacy systems and/or new systems implementation, including concerns about security and business continuity arrangements. There is still inconsistent application and execution of sound practice approaches for both elements, including fraud control management. Basic matters such as password protection, and more broadly, management of user and systems

⁴⁶ Refer Chapter 2—Audit recommendations, pp. 10–11.

access, as well as IT security and change controls, raise questions about assurance that agencies have appropriate information systems controls in place. In short, the same issues have to be revisited year after year.⁴⁷

- 3.16 Further, the Committee stresses that whole-of-government approaches to program or service delivery, including cross-agency cooperation, data-sharing and linked performance, demand that agencies ensure that appropriate IT controls are in place and kept current.⁴⁸
- 3.17 The Committee notes that whilst the Audit found environmental controls were assessed as satisfactory, there were several areas where improvements were needed—in particular, as they relate to governance arrangements. The Committee further notes, however, that Shared Services, in some instances, was unable to fully resolve these issues because of limitations with the implementation of a whole-of-government approach.
- 3.18 The Committee emphasises that unresolved audit findings, especially recurring findings, are risks to business continuity and reputation. The Committee reiterates comments it has previously made concerning this matter—in that, it 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.
- 3.19 In its report considering the 2013–14 financial audits, the Committee made a recommendation that a framework be developed to ensure that unresolved audit findings that require a whole-of-government approach are promptly and appropriately addressed. In its response the Government noted the recommendation and commented:

Noted.

The ACT Government recognises the importance of promptly resolving audit findings. To address outstanding audit findings would require taking a whole-of-government approach to some environmental controls. Specifically, it would include:

- upgrading software systems to operate on the whole-of-government supported operating systems;
- rolling out of a new security classification system for documents; and
- increasing the security on externally hosted websites, consistent with those hosted internally.

⁴⁷ Barrett, P. (2006) 'Risk and control: Paradigm or paradox?', *Neil Walker Memorial Lecture*, CPA Australia Victorian Congress, 18 October, Melbourne, p. 20.

⁴⁸ Barrett, P. (2006) 'Risk and control: Paradigm or paradox?', *Neil Walker Memorial Lecture*, CPA Australia Victorian Congress, 18 October, Melbourne, p. 21.

It is noted that addressing these specific findings would have financial implications and would be subject to future budget decisions and priorities.⁴⁹

- 3.20 Notwithstanding the Government's response, the Committee considers unresolved audit findings can prove more costly if they are not addressed. For another year, the Committee restates its recommendation.

Recommendation 4

- 3.21 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.**

⁴⁹ ACT Government. (2015) Response to PAC Report No.14 (Review of Auditor-General's report No. 7 of 13: 2012–13 *Financial Audits* and Review of Auditor-General's report No. 7 of 2014: 2013–14 *Financial Audits*), 17 September, p. 4.

4 CONCLUSION

- 4.1 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; (iii) major audit findings and details on progress made by agencies on addressing findings made in previous audits; and (iv) an assessment of the adequacy of controls (environment and application) over computer information systems. The Report is a means of providing an assurance that, amongst other things, the information used to prepare financial statements and statements of performance is authentic, accurate and reliable.
- 4.2 An independent opinion is essential to ensure an appropriate level of accountability to the Legislative Assembly and the ACT community for public finances and performance.
- 4.3 Independent opinions as provided in the Auditor-General's annual report on financial audits form an integral part of an effective system of accountability for the stewardship of public funds, for how those funds are spent, and the quality of decision making that underpins that spending. The Committee is therefore of the view that these yearly audit reports are important.
- 4.4 The Committee would like to thank the Auditor-General, responsible Minister(s), directorate and agency officials, for their time, expertise and cooperation during the course of this inquiry.
- 4.5 The Committee has made **four** recommendations in relation to its inquiry into Auditor-General's report No. 10 of 15: *2014–15 Financial Audits*.

Brendan Smyth MLA

Chair

21 April 2016

Appendix A RECOMMENDATIONS OF 2014–15 FINANCIAL AUDIT REPORT⁵⁰

Recommendation 1—System vendor support for operating systems

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy to guide the upgrading of operating systems for which vendor support has ceased. This should include specifying when upgrades are to occur.

Recommendation 2—Externally hosted websites

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy for managing security vulnerabilities relating to externally hosted websites.

Recommendation 3—Alternative information technology infrastructure arrangements

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government strategy for alternative information technology infrastructure arrangements for critical systems.

Recommendation 4—Security of information

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government policy on the introduction of the new security classification system.

Recommendation 5—Business continuity and disaster recovery arrangements

The Chief Minister, Treasury and Economic Development Directorate should develop and foster the implementation of a whole of government policy on business continuity arrangements, which provide assurance that critical systems are operating and available when required and restored in a complete and timely manner in the event of a disaster, disruption or other adverse event.

Recommendation 6—Business continuity and disaster recovery arrangements

ACT Government agencies should have business continuity plans and disaster recovery arrangements that are up-to-date.

⁵⁰ ACT Auditor-General's Report No. 10 of 2015: *2014–15 Financial Audits*, December 2015.