



Our Ref: EC24-001532

Chief Executive Officer  
David Hazlehurst

Mr Julian Hill MP  
Chair Joint Committee of Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600  
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Dear Mr Hill

**Joint Committee of Public Accounts and Audit  
Inquiry into Commonwealth Financial Statements 2022-23**

I refer to correspondence dated 14 February 2024, inviting Services Australia to provide a submission to the Joint Committee of Public Accounts and Audit (JCPAA) Inquiry into Commonwealth Financial Statements 2022-23.

In finalising the 2022-23 financial statement audit process, the Agency has two Category A and five Category B audit findings. The Agency acknowledges the importance of the audit findings raised by the Australian National Audit Office (ANAO) and is progressing remediation and resolution of these issues as a priority.

The Agency works within a complex legislative environment that underpins the diverse range of service delivery responsibilities under agreements with multiple Commonwealth entities. The issues identified by the ANAO have focused the efforts of the Agency to ensure that governance and associated policy frameworks are fit for purpose and applied consistently across the complex service delivery and IT environments managed by the Agency.

The Agency's submission to the JCPAA Inquiry is attached, which provides an outline of the audit remediation activity that the Agency has underway.

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Yours sincerely

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David Hazlehurst

3 April 2024



**Australian Government**  
**Services Australia**

## Submission to the Joint Committee of Public Accounts and Audit Inquiry into Commonwealth Financial Statements 2022-23

### Overview

Following the Committee's invitation, Services Australia (the Agency) makes the following submission to the Joint Committee of Public Accounts and Audit (JCPAA) inquiry into the *Auditor-General Report No. 9 of 2023–24: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2023* (the Report).

This submission provides details on the Agency's audit findings and the remediation action that is underway to address and resolve the issues raised by the Australian National Audit Office (ANAO). A summary of the Agency's audit findings is outlined at [Table 1](#), with further details on findings and remediation activities below.

**Table 1: ANAO Audit Findings for Services Australia**

Category	Closing Position (2021–22)	New Findings (2022–23)	Findings Resolved (2022–23)	Closing Position (2022–23)
<b>Significant (A)</b>	-	2	-	2
<b>Moderate (B)</b>	-	5 <sup>(a)</sup>	-	5
<b>Total</b>	-	<b>7</b>	-	<b>7</b>

(a) Two new moderate audit findings, relating to 'New Residential Aged Care System Access Management' and 'New Residential Aged Care System Change Management' were identified as part of the 2022–23 interim audit. These findings were previously reported in the *Auditor-General Report No. 26 of 2022–23 Interim Report on Key Financial Controls of Major Entities*.

The Agency acknowledges the importance of the audit findings raised by the ANAO and is progressing remediation and resolution of these issues as a priority. Resources continue to be applied and regular monitoring is in place to ensure deliverables are progressing in-line with the commitments in remediation plans, and working closely with the ANAO to ensure resolution of the audit findings.

To ensure the required focus is applied to remediate these findings, the Chief Executive Officer (CEO) requested the Chair of the Agency's Audit and Risk Committee (ARC) to also chair the Reporting Sub-Committee (RSC) to ensure the risks associated with the audit findings are appropriately managed. Currently, the ARC and RSC meet regularly with key senior executive representatives, including the Chief Operating Officer, Chief Information and Digital Officer, and Deputy Chief Executive Officer Customer Service Delivery. Detailed management action plans for all ANAO financial statement audit findings have been developed and are being closely monitored by the sub-committee.

Additionally, the Agency established a Technology and Digital Assurance and Audit Division in November 2023, to provide a greater focus in the monitoring and remediation of ICT related audit recommendations, and to ensure that key system processes and controls are appropriately updated and maintained on an ongoing basis.

The Agency is actively engaging with the ANAO to advise on the progress of the Agency's Category A and Category B audit recommendations. The ANAO is invited to the RSC and meets with key senior executives on a regular basis, including 'deep dive' meetings that detail progress against the audit remediation plan.

## **The Agency**

Services Australia's purpose is to support Australians by delivering high-quality, accessible services and payments on behalf of Government.

The Agency is committed to making government services simple so people can get on with their lives. To achieve this vision, the Agency is focusing on transformation and modernisation, building the capacity and structures for sustained change to deliver streamlined customer services seamlessly and efficiently. To make these changes across its business, requires collaborating with policy agencies, the community and third parties to improve the systems that support Australians, while continuing to provide its extensive services and payments to its customers.

### Financial Information

In 2022-23, the Agency paid over \$220 billion in payments on behalf of the Government. The Agency also worked with separated parents to facilitate the transfer of \$1.8 billion to support approximately 1.1 million children.

The Agency has around 466 million customer interactions each year and administers programs on behalf of numerous policy agencies including the Department of Social Services (DSS), Department of Health, Department of Education and Department of Employment and Workplace Relations, among many others.

Additionally, the Agency is a provider of shared services for several agencies, with the Agency providing corporate and ICT services to the National Disability Insurance Agency and the Department of Veterans' Affairs in 2022-23. The Agency also delivered internet gateway services for nine Australian Government entities.

### Information Technology Environment

The Agency works within a complex legislative environment that underpins the diverse range of service delivery responsibilities under agreements with multiple Commonwealth entities.

To facilitate the range of payments made to support Australians, the Agency has a complex IT environment made up of a suite of systems hosted across different IT platforms to support its business objectives.

Within these environments, the Agency has a combination of applications that are each individually significant to the administration of social welfare, health care and child support programs, including the assessment and calculation of these benefits and the resulting payments. Transformational improvements to the Agency's systems have enabled rapid responses in emergencies, with payments being made within a few days.

The Agency takes its responsibilities for the security of its ICT systems and associated customer information and payments seriously. The issues identified by the ANAO have focused the efforts of the Agency to ensure that the IT governance and associated policy frameworks are fit for purpose and applied consistently across the complex IT environment managed by the Agency.

## Current Status of ANAO Audit Findings

### New Category A - Audit Findings

As part of the 2022-23 financial statement audit process, the ANAO identified two new Category A (significant) audit findings. As set out in the Report the two Category A audit findings relate to Governance of legal and other matters; and IT Governance. An outline of the audit finding and current remediation activities underway are provided below.

#### Governance of Legal and Other Matters

During the 2022-23 financial statements audit, the ANAO identified several instances of non-compliance with laws and regulations that were not brought to the attention of the ANAO. The matters identified impacted programs for the either the Agency (child support) and for other partner agencies financial statements, including income apportionment (Department of Social Services), child-care subsidy (Department of Education), aged care and Medicare issues (Department of Health and Aged Care).

The ANAO recommended that Services Australia design, implement and document a process to ensure legal or other matters are identified for consideration of their impact on the financial statements, and that all matters identified for consideration are communicated to the ANAO.

The Agency acknowledges the requirement for strengthened legal risk identification and reporting mechanisms, and has implemented a new legal risk register which will be utilised to keep the ANAO, ARC, Agency senior officials and partner agencies informed of potential significant legal issues that are likely to have a material impact on financial statements for affected agencies.

The Agency presented a newly developed legal matters risk register to the RSC on 1 March 2024, with the register to be promulgated to Agency committees and partner agencies on a quarterly basis.

The Agency's Chief Legal Counsel will continue to liaise with partner agency legal areas to ensure visibility and consistency of relevant legal matters, and the Chief Financial Officer (CFO) will also advise partner agency CFOs of relevant matters in the legal risk register for consideration in their respective financial statements.

The Agency submitted evidence of the audit finding remediation activities to the ANAO on 28 March 2024, in order to close out the audit recommendations.

#### IT Governance

The ANAO examined controls around significant information technology (IT) systems, which identified a significant audit risk in relation to the increasing number of issues in IT governance within the Agency. In particular, the ANAO identified weaknesses in IT controls in the implementation of large-scale IT projects, which included the roll-out for residential aged care. The ANAO also identified the re-emergence of several individual control issues affecting change and access management and business operations.

The volume of these issues identified that the Agency's IT governance and monitoring processes are not providing appropriate assurance to management that policy requirements have been implemented and are operating effectively.

The ANAO recommended that the Agency's IT governance and monitoring processes be reviewed to ensure they are fit for purpose, and that identified deficiencies are appropriately reported and responded to.

The Agency supports the ANAO recommendations and is reviewing its existing governance arrangements and monitoring processes to ensure they are fit for purpose and any deficiencies are identified in the ICT environment. The remediation plan to resolve the finding has been developed, focussing on refreshing ICT policies and frameworks, education and training, compliance and assurance with policies, and improved governance arrangements. In January 2024, the remediation plan was presented to the RSC, with the approach supported.

Due to the Agency's complex and large number of IT platforms, in excess of 50 systems, that need to be reviewed to address the audit recommendations, the Agency has established a new Division to ensure the appropriate oversight and monitoring of remediation activities. Additional resources have also been onboarded to assist with remediation activities, including specialist resources with ICT policy, governance and assurance expertise. Senior Responsible Officers report weekly on progress against audit remediation activities, including reporting to the Chief Information and Digital Officer (CIDO) weekly and ANAO fortnightly.

Remediation activity is well progressed but due to the complexity and number of ICT systems managed by the Agency, it will take some time to fully address all aspects of the audit recommendations.

The first phase of remediation, which is expected to be completed by 30 June 2024, will be focussed on access management, change management and disaster recovery policies with the following activities to be undertaken:

- Governance and oversight of IT system non-compliance have been established, to strengthen accountability and visibility of issues to senior management. Terms of reference have been updated for the Business Management Committee, chaired by CIDO, to reflect the requirements.
- Clarified accountability of system owners and the identification of non-compliance with policies, and the escalation of non-compliance to ensure detailed plans are developed to treat deficiencies.
- Based on a risk assessment, key priority policies have been identified to be refreshed.
- Mandatory training and education on IT governance and compliance with policies to be rolled out and completed annually.

Due to the large number of systems, remediation activities will be rolled out in a phased approach, prioritising systems on a risk basis due to the following:

- Making payments on behalf of the Government.
- Undertake system calculations on entitlements based on legislation.
- Managing and maintaining customer data.
- Identified as critical in delivering government services for partner agencies.
- Specific deficiencies identified as part of an audit finding.

On this basis, three systems have been selected for the first tranche of the phased approach, which include, Child Support, Aged Care and SAP financials to implement the remediation activities. This will assist in developing a proven remediation plan that will be adopted for the remaining 52 in-scope systems, which will be communicated to the RSC and the ANAO in May 2024.

As a result, the Agency is expecting that it will take until the 2025 interim audit process for all aspects of the recommendations to be fully resolved.

## **New Category B audit findings**

### FMIS and HRMIS Privileged User Management

Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others. During 2022–23 the ANAO identified weaknesses in the effectiveness of Services Australia’s monitoring of privileged user activities within the Financial Management Information System (FMIS) and Human Resource Management Information System (HRMIS).

At the conclusion of the 2022–23 audit, an effective logging and monitoring process that reviews and assesses risk at the activity level had not been implemented by Services Australia.

The Agency has commenced a review of its Standard Operating Procedures (SOP) and user roles, with a view to further limit the use of privileged access. The Agency will improve logging and monitoring capabilities by establishing the ability to trace and access audit logs through a database to allow for more in-depth analysis.

Audit remediation activities of recommendations are on track, with evidence to be provided to the ANAO for consideration prior to 30 June 2024.

### Medicare, Child Support and Health IT Mainframe Privileged User Management

Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others. During 2022–23 the ANAO identified weaknesses in the effectiveness of Services Australia’s monitoring of privileged user activities within the Medicare, Child Support and Health IT mainframes.

At the conclusion of the 2022–23 audit, an effective logging and monitoring process that reviews and assesses risk at the activity level had not been implemented by Services Australia.

The Agency acknowledges the risk posed by privileged users and is performing regular reviews for the Medicare, Child Support and Health Mainframes. Subject matter expertise within the Agency is being uplifted to perform the regular reviews.

The Agency is undertaking an assessment of the privileged activities, based on business and IT risks within the Medicare, Child Support and Health mainframes, and will also revise the standard operating procedures to support the regular review process. The Agency is undertaking weekly and monthly reviews of privileged activities and is also conducting a retrospective assessment over past privileged user activity.

The Agency will submit evidence of the audit finding remediation activities to the ANAO prior to 30 June 2024, in order to close the finding.

### Centrelink IT Mainframe Privileged User Management

Maintaining and supporting IT systems requires some user accounts, both at the network and the application level, to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others. During 2022–23 the ANAO identified



weaknesses in the effectiveness of Services Australia's monitoring of privileged user activities within the Centrelink IT mainframes.

At the conclusion of the 2022–23 audit, an effective logging and monitoring process that reviews and assesses risk at the activity level had not been implemented by the Agency.

The Agency acknowledges the risk posed by privileged users and is performing regular reviews for the Centrelink database, and increase the level of expertise to undertake effective review processes.

The Agency is undertaking an assessment of the privileged activities, based on business and IT risks within the Centrelink database, and is revising standard operating procedures to support the regular review process. To minimise system risks, the Agency is also undertaking a retrospective assessment over past privileged user activity.

The remediations activities to address the audit recommendations will be provided to the ANAO by 30 June 2024.

## **Category B - Unresolved audit findings**

### New Residential Aged Care System Access Management

In August 2022, the Agency implemented a new residential aged care system, which replaced the previous payments system, in advance of transitioning into the new Aged Care funding reform from 1 October 2022. Maintaining and supporting IT systems requires some user accounts to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others.

During the 2022–23 interim audit, the ANAO identified that there were weaknesses in the design and operating effectiveness of controls supporting privileged and other user access. More broadly, the ANAO has observed a break-down in Services Australia's re-established security governance control framework, particularly the lack of formal system accreditation or other supporting system security risk assessments that would identify and allow system and project owners to formally analyse, understand and mitigate and/or accept key security governance risks prior to the implementation of the new system.

The ANAO recommended that Services Australia strengthen privileged user access and logging and monitoring processes. Services Australia's look-back remediation procedures did not adequately address the risk associated with these control weaknesses, requiring additional alternate procedures to be performed by the audit team for the 2022–23 financial year.

In addition to remediation activities already undertaken during the 2022-23 financial year, the Agency is conducting a risk assessment of the current user access management in the New Residential Aged Care System and is implementing suitable logging technology to monitor privileged user activities.

The Agency will complete remediation activities by 30 June 2024 and prepare a closure pack for ANAO consideration.

### New Residential Aged Care System Change Management

In August 2022, Services Australia implemented a new residential aged care system. IT change management provides a disciplined approach to making changes to the IT environment. It includes controls to prevent unauthorised changes being made and reduce the likelihood that normal business operations are interrupted with the implementation of authorised changes.

During the 2022–23 interim audit, the ANAO identified that there were weaknesses in segregation of duties controls associated with key change management processes, with Services Australia developers having access to release and deploy changes directly into the system.

The ANAO recommended that Services Australia strengthen change management processes to address the identified control weakness. Services Australia retrospective remediation procedures did not adequately address the risk associated with the control issues, requiring additional alternate procedures to be performed by the audit team for the 2022–23 financial year.

In addition to remediation activities already undertaken during the 2022-23 financial year, the Agency has implemented a new Standard Operating Procedure for deployments of changes and is confirming that segregation of duties controls introduced in March 2023 were effective in relation to the December 2023 release. The Agency is undertaking a further retrospective review to provide assurance and risk acceptance over changes made prior to the new Standard Operating Procedure which came into effect in December 2023.

The Agency will submit evidence of the audit finding remediation activities to the ANAO prior to 30 June 2024 for their consideration for closure.