Australian Government

Department of Health

Secretary

Ms Lucy Wicks MP
Chair, Joint Committee of Public Accounts and Audit
Box 6021, Parliament House
CANBERRA ACT 2600
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Dear Ms Wicks

Re: Inquiry into Commonwealth Financial Statements 2019-20

The Department of Health (Health) provides this submission to the Joint Committee
of Public Accounts and Audit (JCPAA) to support its consideration of the Auditor-
General Reports:

- *Audits of the Financial Statements of Australian Government Entities for the Period
  Ended 30 June 2020* (Report 25/ 2020-21); and
- *Interim Report on Key Financial Controls of Major Entities* (Report 40/ 2020-21).

Thank you for the invitation to submit a response to the JCPAA on the Australian
National Audit Office (ANAO) reports regarding the 2019-20 Commonwealth
Financial Statements. This submission focusses on improvement actions
implemented as part of Health's response to Report 25/ 2020-21 and Report 40/
2020-21. The submission also highlights continuous improvement actions across
Health's departmental operations.

The Report noted the status of ANAO findings[i] as follows.

Category	Closing position (2018-19)	New findings (2019-20)	Findings resolved (2019-20)	Closing position (2019-20)
Moderate (B)	1	2	(1)	2
Total	1	2	(1)	2

There were two new moderate audit findings in relation to User Access Controls (Terminated Users) and Recording and Management (National Medical Stockpile). Report extracts and subsequent actions follow.

User Access Controls – Terminated Users

The Report noted the following.

During the 2019–20 interim audit, the ANAO's testing identified weaknesses in the Health's security controls relating to terminated users being removed or suspended on the same day as they no longer have legitimate requirement for access. During the final phase the ANAO identified that there were a number of users who retained access to the SAP system post termination and a small number of these had accessed the system to print, email and access HR self-service post termination[ii].

Health has implemented the Staff Admin system, which collects corporate data from SAP and authoritative sources of truth, in order to share identify information and controls access to Health's systems in a reliable and consistent way. The system removes the need to manually enter information to IT systems, reducing the risk of error or misconfiguration. In January 2020 the staff admin de-provisioning functionality was implemented; this removes access automatically when a staff member's end date is reached. De-provisioning of an account prior to a staff member's end date or for ongoing APS is reliant on the manager submitting the request to off board in SAP which is consistent with requirements in Health's policy. Enhancements to SAP are underway to notify the IT Security Advisor when a user account is terminated prior to a staff member's expected last working day. Upon receipt the account will be terminated, and a review of relevant account loges will ensure that no unauthorised access occurred after their last working date. This will be assessed as part of the 20-21 financial statement audit process[iii].

Health Response and actions taken

The issue identified by the ANAO during the final phase of the 2019-20 Financial Statement Audit related to contractors accessing the systems to finalise administration associated with completion of their contracts, whose contract end dates in the system were subsequently backdated.

In response to the potential for a systemic control weakness identified in the Report, Health has taken a defence in depth approach to address the finding, implementing technical controls in conjunction with targeted education and revised security policies. Health also has a security and awareness campaign underway, which includes compliance with off-boarding.

As part of the implementation of new controls, in September of 2020 Health implemented compliance reporting from SAP when backdated terminations occur. As a result the IT Security team are now able to investigate and respond to all back dated terminations. Unapproved access to the Health's systems are managed as a security incident. Even if unauthorised access hasn't occurred, the manager of the employee is contacted to be reminded of their responsibilities to ensure offboarding is undertaken in a timely manner.

National Medical Stockpile – Recording and Management

The Report noted the following.

During the 2019–20 final audit, the ANAO's testing identified weaknesses in Health's recording and management of the National Medical Stockpile (NMS). These included: the inventory management system supporting the NMS not being fit for purpose; absence of reconciliations between the Health FMIS and inventory records and financial reporting by product and location for the last quarter of the financial year; a number of errors in the manually entered excel inventory register; and lack of frequency in stock taking processes, delays in provisions of stock take methodology and timely resolution of stock take variation[iv]. Health will seek to develop a solution incorporating reconciliations between Health FMIS and warehouse vendor records and a rolling program for stock take that best suits the nature of the stock pile[v].

Health Response and actions taken

Health accepted the ANAO's finding on this matter, noting that the financial statements items related to the NMS were materially correct, and this was verified by the ANAO, and noting the unusual circumstances for the NMS in 2019-20 which saw exponential growth in the scale and scope of personal protective equipment as a deliberate and critical aspect of supporting the Government's health response to the unprecedented COVID-19 pandemic. The focus for Health in 2020-21 has been on the implementation of a stronger system and supporting processes to underpin those balances throughout the year, reducing the burden in validating and verifying them at the end of a reporting period.

Health has undertaken the Inventory Management Solution (IMS) project to deliver a software solution that effectively integrates with Health's FMIS and the reports provided by the logistics providers managing the NMS warehouse locations. The IMS project incorporates solution delivery and business process design to support inventory management processes and controls. The IMS first release is scheduled for September 2021, at which point it will be used by the business area to capture transactional activity, volumes and location data. The second release in December 2021 will finalise reporting functionality, as well as weighted average cost calculation, FMIS postings, impairment and other inventory adjustments.

Health implemented an Excel-driven model in 2019-20 to ensure transactional activity on the NMS was captured, and volumes and values correctly recorded. This was relied upon to produce the materially correct financial statements items relating to the NMS in 2019-20. Health has continued to make enhancements to the model in 2020-21 to support monthly reporting and improved automation of data entry, as well as improving the stability and performance of the model, which has been used as the interim IMS for 2020-21 financial statements.

The interim IMS quality assurance (QA) process incorporates reconciliation between Health FMIS, the model, and logistics provider reporting, as well as deployment requests from the program area. Monthly QA activity validates prepayments, accruals, deployments, receipts and stock on hand. Health actively manages its relationship with logistics providers to pursue and correct discrepancies when they occur. The QA requirements will be embedded in the end-state IMS as well.

Health also engages an external provider to undertake the stocktake over the NMS. In 2019-20 and 2020-21 EY Australia has provided that service. In 2020-21, EY undertook an annual stocktake process using a methodology commensurate with the

scale of the NMS, reviewed and accepted by the ANAO. The methodology includes cycle tracker testing for sites running quarterly cycle counts, and substantive testing on sites yet to fully implement cycle counting.

It should be noted that the stocktakes in 2019-20 and 2020-21 identified limited variances and made no recommendations for significant adjustments.

Health considers that the actions undertaken are well aligned with the intent of the recommendations in the Report. We would be happy to discuss our progress on implementation with the Committee through correspondence or as part of the public hearing process.

Yours sincerely

Dr Brendan Murphy

2₆ July 2021

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i *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020* (Report 25/ 2020-21) para 5.7.16, Table 5.7.5

ii *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020* (Report 25/ 2020-21) para 5.7.18

iii *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020* (Report 25/ 2020-21) para 5.7.19

iv *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020* (Report 25/ 2020-21) para 5.7.20

v *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020* (Report 25/ 2020-21) para 5.7.21