



Australian Government
Department of Social Services

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

Department of Social Services

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Introduction

The Department of Social Services (the department) welcomes the opportunity to provide a submission to the Joint Committee of Public Accounts and Audit (JCPAA).

The Auditor-General in his 2022-23 financial statements audit of Commonwealth entities, reported 9 significant audit findings and 36 moderate audit findings¹. Of the significant findings, the department was one of four entities that the ANAO identified as having weaknesses in financial statement preparation processes with respect to consideration of legal matters. The department also has one open moderate finding relating to the management of terminated user access.

Following the JCPAA's invitation, the department submits the following to the JCPAA Inquiry into the 2022-23 Commonwealth Financial Statements.

A – Significant Finding - Legal Governance

The significant 'Governance of legal and other matters' finding relates to the late disclosure of information regarding the issue of income apportionment, which was the subject of an own-motion investigation by the Commonwealth Ombudsman.² The sensitive nature of the Ombudsman review and associated legal issues meant that the information was not widely shared across the department, despite the potential for financial statement implications.

The department agreed this was an issue as soon as it was raised by the ANAO in July 2023, and moved immediately to address it by implementing a new quarterly legal risk report in August 2023. This reporting provides better and earlier visibility of legal matters with potential financial statement impacts to the Chief Finance Officer, the department's Executive Management Group, and the Audit and Risk Committee. The quarterly reporting cycle the department has instigated for the legal risk report will also provide the ANAO with greater visibility and assurance around the management of significant legal matters by the department with financial implications relevant to the ANAO's audit.

¹ Auditor-General Report No.9 2022-23: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2023, p11

² See: <https://www.ombudsman.gov.au/data/assets/pdf_file/0040/299947/Commonwealth-Ombudsman-public-statement-regarding-OMI-Income-Apportionment-Lawfulness.pdf>

The department has also reviewed and updated the frameworks associated with managing legal risks by:

- Reinforcing obligations to report significant issues under the *Legal Services Direction 2017*;
- Issuing *Principles for Sharing Legal Advice across the Social Services portfolio*;
- Establishing a new *Legal Services Protocol* with Services Australia under the Bilateral Management Agreement between entities; and
- Investing in training in-house lawyers on the subjects of ethics and integrity to reinforce responsibilities for identifying and engaging with program risk management.

The ANAO will review the steps the department has taken to resolve this finding as part of the 2023-24 financial statement audit currently underway.

B – Moderate Finding - SAP User Termination

The moderate Category B ‘SAP Termination’ finding is an unresolved audit finding from the 2020-21 financial year. The ANAO identified the risk of contractors not being off-boarded within the department’s finance system in a timely manner, such that they could retain access to the system after ceasing their employment / engagement with the department.

The department agreed this finding and during the two years from 2021 to 2023, the department implemented a termination report, reviewed all terminations under all category types and took the following steps to strengthen the internal controls:

- Weekly checks to verify that accounts of users are terminated and disabled promptly;
- Where an instance of a user potentially accessing the network post termination is identified, analysis of application logs is performed to determine if any systems were accessed and the nature of activity undertaken that may have a business or financial risk;
- Ensuring that investigations pertaining to terminations and the related risk assessment are documented;
- Maintaining procedural documentation.

Despite the implementation of the above controls, the ANAO identified eight instances where users had a last logon date after their termination date through the course of the 2022-23 audit. Given the stronger controls that are now in place, the department disagreed with the severity of the audit finding but was ultimately unable to provide sufficient supporting evidence to the ANAO to reduce the severity of the finding.

In 2023-24, the department has continued the operation of these new controls and is now also vigilantly ensuring its documentation supports the effective operation of this control.

The ANAO will review the steps the department has taken to resolve this finding as part of the 2023-24 financial statement audit currently underway.

C – Next Steps

The department is actively working to address the audit findings through enhanced legal governance including regular communication of legal matters with the relevant stakeholders and enhancing the documentary evidence of the SAP User Termination controls. Efforts are underway to achieve resolution and closure of both of these audit findings in the 2023-24 financial statements audit.