

The Auditor-General
Audit Report No.39 2000–2001
Performance Audit

Information and Technology in Centrelink

Centrelink

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ISSN 1036-7632
ISBN 0 642 44293 2

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Canberra ACT
28 May 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Information and Technology in Centrelink*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Contents

Abbreviations/Glossary	7
Summary and Recommendations	
Summary	11
Audit objective and approach	11
Overall audit conclusion	12
Key Findings	14
Recommendations	18
Audit Findings and Conclusions	
1. Introduction	21
Background	21
Methodology	21
Centrelink	22
Audit objective	22
Audit approach, methodology and scope	23
Report structure	23
2. Financial Audit	26
Business and operating environment	26
Conclusion	28
3. Planning and Organisation	29
Overview	29
Define a strategic I&T plan	29
Define the information architecture	37
Manage the I&T investment	37
Communicate management aims and direction	38
Assess risks	39
Manage quality	40
4. Acquisition and Implementation	41
Develop and maintain I&T procedures	41
Managing changes	43
5. Delivery and Support	45
Manage performance and capacity	47
Ensure continuous service	48
Ensure systems security	49
Identify and attribute costs	51
Manage problems and incidents	53

6.	Monitoring	55
	Overview	56
	Monitor the processes	56
	Assess internal control adequacy	61
	Obtain independent assurance	63
	Provide for independent audit	63
	Appendices	
	Appendix 1: Centrelink's Information & Technology Environment	67
	Appendix 2: CobiT: Control Objectives for Information and Related Technology	69
	Index	74
	Series Titles	75
	Better Practice Guides	78

Abbreviations/Glossary

ABC	Activity Based Costing
ACF2	Security software that manages an individual's access to programs and data on large computers
ANAO	Australian National Audit Office
BASG	Business Assurance Services Group
CobiT	Control Objectives for Information and Related Technologies
CPU	Central Processing Unit
HRMS	Human Resource Management System
I&T	Information and Technology
I&TLG	Information and Technology Leadership Group
ISACA	Information Systems Audit and Control Association
ISIS	Income Security Integrated System
ISO	International Standards Organisation
IT	Information Technology
SAMS	Security Access Management System
SAP	HIC's financial accounting application

Summary and Recommendations

Summary

1. Centrelink was established as a statutory authority with its own legislation in July 1997. It provides services in relation to the delivery of personal benefit payments and other payments on behalf of on behalf of 13 Commonwealth agencies. Its major purchasers, in order of business value are: the Department of Family and Community Services; the Department of Employment, Workplace Relations and Small Business; the Department of Education, Training and Youth Affairs; the Department of Agriculture, Fisheries and Forestry–Australia and the Department of Health and Aged Care.

2. In 1999–2000, Centrelink made payments of approximately \$43.5 billion to 6.4 million customers (citizens) including retirees, families with children, unemployed, students and people with a disability. These payments are about one third of Commonwealth budget outlays. Its administrative expenditure of approximately \$1.8 billion represents about 20 per cent of Federal Government total administrative expenditure.

3. In making these above-mentioned payments, Centrelink relies significantly on the control structure supporting its information technology (Information and Technology, I&T, in Centrelink terms) systems and the development, implementation and support of systems and procedures for the prevention, identification and deterrence of incorrect payment and fraud. Centrelink also depends upon appropriate I&T performance information against which the quality and quantity of its I&T system outputs can be measured and/or assessed. In order to place the size of Centrelink's I&T in perspective, Centrelink provided the information and statistics in Appendix 1.

4. In conducting a joint financial statement and performance audit of Centrelink's I&T systems, the ANAO concentrated on the management and monitoring of I&T system changes and the appropriateness, as well as its use, of I&T performance information.

Audit objective and approach

5. The audit was conducted as a joint financial statement and performance audit of Centrelink's I&T systems. The objective of the financial statement component of the audit was to express an opinion on whether Centrelink could rely on its I&T systems to support production of a reliable set of financial information for its financial statements. The objective of the performance audit component was to determine whether Centrelink's I&T systems' outputs adequately met quality and service delivery targets.

6. The audit addressed Centrelink's I&T as a total framework, using the I&T systems that support Pension and Newstart payments as specific examples.

7. The audit team considered that the performance aspects of the audit objective were best addressed using an international set of standards as a reference point, particularly given the global nature of information and technology. The Information Systems Audit and Control Foundation has developed standards, known as CobiT (Control Objectives for Information and Related Technology). CobiT standards are tools generally applicable to, and an accepted standard for, I&T governance. Appendix 2 of the audit report provides further information about the CobiT standards. Centrelink's I&T systems were measured against the CobiT standards and the criteria embedded in those standards.

8. The CobiT process and control objectives fall into four main domains:

- planning and organisation (addressed in Chapter 3 of this report);
- acquisition and implementation (Chapter 4);
- delivery and support (Chapter 5); and
- monitoring (Chapter 6).

9. Due to issues of relevance, time and cost constraints, the audit did not address all the specific control objectives within these four main domains. The ANAO did, however, concentrate on controls critical to Centrelink's business functions.

Overall audit conclusion

10. The ANAO financial statement information technology (IT) audit concluded that reliance could be placed on Centrelink's information and technology (I&T) systems and controls, and accuracy of the accounts and records, to the extent necessary to form an opinion on the agency's financial statements.

11. As well as relying on appropriate control structures to support its I&T systems, Centrelink also depends upon adequate I&T performance information to measure the quality and quantity of its I&T system outputs. The ANAO's objective in undertaking a performance audit of Centrelink's I&T was to *'determine whether Centrelink's I&T systems' outputs adequately met quality and service delivery targets'*. At the completion of the I&T performance audit, the ANAO concluded that, while Centrelink was meeting the quality and delivery targets it had set itself for I&T services, the development and future use of I&T performance measures could be improved.

12. Centrelink had adopted a set of I&T performance measures that were intended to link and relate to each I&T strategy in its I&T strategic Plan. These measures had been developed to assess the effectiveness of some, but not all, I&T strategies. The ANAO concluded that Centrelink should confirm its key I&T strategy statements and ensure that each key I&T strategy contains clearly defined performance measures. This information would help Centrelink's managers to judge whether the I&T strategies being used by Centrelink to achieve its I&T Strategic Plan are the best available, given the circumstances, as well as to formulate decisions about future activities and directions across all Centrelink's I&T strategies. Centrelink informed the ANAO that targets monitored in the I&T Balanced Scorecard are to be broadened in the coming months.

13. The ANAO concluded that Centrelink had an effective framework for the acquisition and implementation of I&T systems. While the ANAO considered that Centrelink's I&T procedures and management of changes were generally satisfactory, records and relevant documentation describing the impact and testing of I&T changes did not completely address all recent changes and was not always updated promptly. The ANAO suggested, therefore, that adequate documentation of testing be maintained for all I&T system changes, including documentation of impact assessments and centralised change control procedures.

14. Delivery and support processes and associated controls are necessary to make reasonably certain that the required I&T services are able to be provided. Although Centrelink had arrangements in place to ensure the continuous service of the I&T systems that support its business processes, the ANAO considered that costing and budgeting for the services it assessed—such as the assessments, payments, cards, letters and reviews for Pensions and Newstart services—had not yet been fully developed by Centrelink. The ANAO noted the introduction of Activity Based Costing (ABC) within Centrelink and that effective implementation of ABC should enable Centrelink to identify costs incurred on the I&T systems supporting, for instance, the Pensions and Newstart business processes.

15. Effective monitoring of I&T processes makes it possible to assess the extent to which the objectives set for the I&T systems have been met. For those I&T measures that had been developed by Centrelink, suitable targets had not been determined with reference to comparable industry standards and practices. The ANAO concluded that, while Centrelink had developed adequate internal performance measures for its I&T system, it was not in a position to compare its performance against targets that represented recognised better practice. Centrelink informed the ANAO that it had initiated a project to benchmark its I&T and, in this respect, Requests for Tender were advertised in September 2000.

Key Findings

1999–2000 audit of Centrelink's financial statements (Chapter 2): *this component of the audit aimed to express an opinion as to whether, in the preparation of the annual financial statements, Centrelink could rely on the specific controls supporting its I&T systems, including the development, implementation and support of systems and procedures for managing payments made to benefit recipients.*

16. The ANAO's review of key components of Centrelink's general I&T control environment that supports specific business applications highlighted a number of issues, many of which had been raised previously by Centrelink's Internal Audit. Internal Audit recommendations had been made in the areas of access control and monitoring, program change configuration, data and program changes and the testing of changed programs.

17. The audit issues raised highlighted the importance of a more strategic approach to I&T systems security and its integration into the overall risk management practices of Centrelink. In this regard, Centrelink initiated a major review of I&T Security architecture in February 2000 that should address many of the audit issues raised.

18. The income support systems (Pensions, Newstart, Parenting and Families) record customer details, including circumstances such as earnings, assets, children and housing. The nature of income support payment processing had led to the presence of a number of duplicate records within the systems. Centrelink has advised it is actively working to ensure that duplicate payments do not occur and the controls in place are operating effectively.

Planning and organisation (Chapter 3): *this component of the audit aimed to identify the link between Centrelink's business objectives and its I&T strategies.*

19. To monitor its performance in implementing its I&T Strategic Plan, Centrelink had adopted a set of I&T measures that were intended to link and relate to each I&T strategy. In assessing these links, the ANAO found that I&T measures and performance information had been developed to assess the effectiveness of some, but not all, I&T strategies.

20. To assist Centrelink to monitor the implementation of its I&T Strategic Plan, the ANAO recommended that Centrelink confirm its key I&T strategy statements and ensure that each key I&T strategy contains clearly defined performance measures.

21. The ANAO found that:

- Centrelink's information architecture was comprehensive and substantially complete;
- policies and procedures existed to provide guidance for monitoring and comparison of actual and budgeted costs; and
- senior Centrelink management had formally accepted responsibility for maintaining and communicating requirements for integrity, ethical values and a framework for I&T security.

22. The ANAO examined Centrelink's management of risk relating to its I&T systems and found deficiencies in the process of assessing and managing risk. Since the completion of the audit, Centrelink has developed and communicated a comprehensive 'Guide to Managing Risk' that aims to communicate a consistent and rigorous risk management framework and approach for Centrelink Teams and Leaders. When fully implemented, this should address identified deficiencies regarding its risk management practices.

Acquisition and implementation (Chapter 4): this component of the audit aimed to determine whether Centrelink had an effective management framework to develop and maintain its I&T procedures and to control the changes to its I&T systems.

23. The ANAO found that user, operational and technical procedures had been satisfactorily documented and adequately maintained. These procedures were also found to address adequately existing service levels and operational requirements.

24. The ANAO found Centrelink's development and maintenance of I&T procedures, together with its management of change, to be generally satisfactory. Recent improvements in Centrelink's change management processes were identified, including the development and release of a new testing strategy, and an overall strategy to improve the quality of quarterly releases, or changes, that is overseen by a Senior Executive.

25. While the ANAO found that Centrelink's I&T procedures and management of changes were generally satisfactory, records and relevant documentation describing the impact and testing of I&T changes did not completely address all recent changes and was not always updated promptly. The ANAO suggested, therefore, that adequate documentation of testing be maintained for all I&T system changes, including documentation of impact assessments and centralised change control procedures.

Delivery and support (Chapter 5): this component of the audit aimed to identify the support process and controls put in place by Centrelink to ensure the actual delivery of the required I&T services.

26. The ANAO found that:

- Centrelink's management of the I&T performance and of computing systems capacity supporting the business processes, including Pensions and Newstart, was satisfactory;
- Centrelink's process for ensuring continuous service from the I&T systems that support business processes was satisfactory; and
- Centrelink's management of problems and incidents was satisfactory at both the infrastructure/operations level and for the I&T systems directly supporting the Pensions and Newstart business processes.

27. The ANAO conducted a detailed review of the central computer security software as part of the 1999–2000 audit of Centrelink's financial statements¹. At the time of the audit, the ANAO found:

- irregular monitoring by management of user access to ensure consistency with business requirements;
- inadequate monitoring of privileged user access to the central computer;
- inadequate contingency planning for the Security Access Management System (SAMS); and
- over-reliance on key staff for SAMS operations.

28. Centrelink advised the ANAO that it has commenced reviewing the use of SAMS with a view to replacing it with a commercial alternative, or, if no appropriate replacement can be found, expanding SAMS functionality. Centrelink also advised that it has commenced training and broadening the SAMS operator base.

29. During the fieldwork for the performance audit, the ANAO found that costing and budgeting—such as for assessments, payments, cards, letters and reviews for agreed Pensions and Newstart services—had not been fully developed by Centrelink.

30. To assist in implementing Activity Based Costing (ABC) and to hasten the identification of the true cost of delivering Pensions and Newstart services, the ANAO recommended that Centrelink develops accurate, timely and relevant information relating to the cost incurred in delivering I&T services supporting business processes.

¹ SAMS/390 is Centrelink's in-house developed security management system for the automated management of mainframe user accounts and access profiles. ACF2 is the Access Control Facility for Centrelink's Mainframe security systems.

Monitoring (Chapter 6): *this component of the audit aimed to determine whether monitoring arrangements allowed Centrelink's managers to assess the quality of I&T processes and compliance with control requirements.*

31. The ANAO found that Centrelink's internal performance targets for I&T had not been developed with reference to industry standards and practices. While Centrelink had developed internal performance measures for its I&T system, it was not in a position to compare its performance against targets that represented recognised better practice. The ANAO noted that an I&T benchmarking exercise is underway with tenders being advertised in late 2000.

32. To provide a comprehensive picture of I&T performance, the ANAO recommended that Centrelink's I&T performance indicators and targets are designed with reference to comparable better practice and measure key aspects of its I&T systems.

33. Centrelink had established a Business Assurance Services Group that conducted internal audits, control monitoring and appraisals as a service to Centrelink management. The group reported to the Centrelink Audit Committee. This process complemented and significantly strengthened line management's systems of assessing and monitoring internal controls.

34. The ANAO noted that accreditation for the security systems for Centrelink's network and firewall had been obtained from the Defence Signals Directorate, and some I&T services had been International Standards Organisation (ISO) accredited.

35. The ANAO found that a satisfactory internal and external independent audit process existed for Centrelink's I&T operation.

Recommendations

Recommendation No.1
Para. 3.25

To further assist Centrelink to monitor the implementation of its I&T Strategic Plan, the ANAO recommends that Centrelink confirm its key I&T strategy statements already in place and ensure that each key I&T strategy contains clearly defined performance measures.

Centrelink response: Agreed.

Recommendation No.2
Para. 5.32

To assist in implementing Activity Based Costing (ABC) and to hasten the identification of the true cost of delivering Pensions and Newstart services, the ANAO recommends that Centrelink develops accurate, timely and relevant information relating to the cost incurred in delivering I&T services supporting business processes.

Centrelink response: Agreed.

Recommendation No.3
Para. 6.20

To provide a comprehensive picture of I&T performance, the ANAO recommends that Centrelink's I&T performance indicators and targets are designed with reference to comparable better practice and measure key aspects of its I&T systems.

Centrelink response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of Centrelink and identifies the aspects of the agency's information technology examined in the audit. The chapter also describes the audit objectives and methodology, and the structure of this report.

Background

1.1 The ANAO contracted Deloitte Touche Tohmatsu to assist with the audit of information technology (IT) in three Commonwealth agencies: Centrelink, the Health Insurance Commission and the Department of Veterans' Affairs.

1.2 The result of the audit of each agency is reported separately. This report covers the information and technology audit within Centrelink.

Methodology

1.3 The audit was conducted partly as an element of the ANAO's annual examination of the financial statements of Centrelink and partly as a performance audit of Centrelink's use of IT, known as Information and Technology (I&T) within Centrelink. The financial statement audit examined I&T system controls with a view to forming an opinion on Centrelink's financial statements. An audit opinion on Centrelink's 1999–2000 financial statements was included in Centrelink's 1999–2000 Annual Report. That audit opinion was unqualified.

1.4 Building on the work undertaken during that audit, the ANAO conducted additional analyses of the performance aspects of Centrelink's I&T systems. This report provides a summary of the 1999–2000 audit of Centrelink's financial statements and the ANAO's findings and conclusions as a result of the additional performance audit. The performance audit aimed to:

- identify the link between Centrelink's business objectives and its I&T strategies;
- determine whether Centrelink had an effective framework to develop and maintain its I&T procedures and to control the changes to its I&T systems;
- identify the support process and controls put in place by Centrelink to ensure the actual delivery of the required I&T services; and
- determine whether monitoring arrangements allowed Centrelink's managers to assess adequately the quality of I&T processes and compliance with control requirements.

Centrelink

1.5 Centrelink was established as a statutory authority with its own legislation in July 1997. It provides services in relation to the delivery of personal benefit payments and other payments on behalf of on behalf of 13 Commonwealth agencies. Its major purchasers, in order of business value are: the Department of Family and Community Services; the Department of Employment, Workplace Relations and Small Business; the Department of Education, Training and Youth Affairs; the Department of Agriculture, Fisheries and Forestry—Australia, and the Department of Health and Aged Care.

1.6 In 1999–2000, Centrelink made payments of approximately \$43.5 billion to 6.4 million customers (citizens) including retirees, families with children, unemployed, students and people with a disability. These payments are about one third of Commonwealth budget outlays. Its administrative expenditure of approximately \$1.8 billion represents about 20 per cent of the Federal Government's total administrative expenditure.

1.7 In making these above-mentioned payments Centrelink relies significantly on the control structure supporting its I&T systems and the development, implementation and support of systems and procedures for the prevention, identification and deterrence of incorrect payment and fraud. Centrelink also depends upon appropriate I&T performance information against which the quality and quantity of its I&T system outputs can be measured and/or assessed. In order to place the size of Centrelink's I&T in perspective, Centrelink provided the information and statistics in Appendix 1.

1.8 In conducting a joint financial statement and performance audit of Centrelink's I&T systems, the ANAO concentrated on the management and monitoring of I&T system changes and the appropriateness, for purpose as well as its use, of I&T performance information.

Audit objective

1.9 The audit was conducted as a joint financial statement and performance audit of Centrelink's I&T systems. The objective of the financial statement component of the audit was to express an opinion on whether Centrelink could rely on its I&T systems to support production of a reliable set of financial information for the financial statements.

1.10 The objective of the performance audit component was to determine whether Centrelink's I&T systems' outputs adequately met quality and service delivery targets.

1.11 The audit addressed Centrelink's I&T as a total framework, using the I&T systems that support Pension and Newstart payments as specific examples.

Audit approach, methodology and scope

1.12 The above objectives were addressed by assessing key aspects of Centrelink's Pension and Newstart payments systems against selected, relevant control objectives of an international set of standards as a reference point. The Information Systems Audit and Control Association (ISACA) Foundation developed those standards. ISACA is a worldwide organisation based in the USA. The standards are referred to as Control Objectives for Information and Related Technology, or CobiT². CobiT standards are tools generally applicable to, and an accepted standard for, good I&T governance. The CobiT standards formed the audit criteria for the second part of the audit. They are summarised in Table 1. The Table has been extended from the standard CobiT approach to include:

- an indication of whether the ANAO considered that Centrelink had addressed that CobiT objective satisfactorily;
- an indication of where Centrelink's Internal Audit reviewed the objective and the result of their review;
- an indication as to whether the ANAO had addressed a specific CobiT objective and where it had not due to issues of relevance, time and cost constraints; and
- a cross reference to the paragraph in the report addressing the CobiT objective.

1.13 The audit included a review of Centrelink's documentation and reports, and interviews with Centrelink staff.

Report structure

1.14 Chapter 2 provides an overall summary of the results of the ANAO's financial statement audit component of this integrated audit.

1.15 The CobiT process and control objectives fall into four main domains. The findings about each of the four CobiT domains are reported in the following Chapters:

- planning and organisation (Chapter 3);
- acquisition and implementation (Chapter 4);
- delivery and support (Chapter 5); and
- monitoring (Chapter 6).

² CobiT copyright notice: 'Copyright 1996, 1998, 2000 Information Systems Audit and Control Foundation. Reprinted with the permission of the Information Systems Audit and Control Foundation and IT Governance Institute'.

1.16 The audit was conducted in compliance with ANAO Auditing Standards. Its estimated cost was \$335 000.

Table 1

**Control Objectives for Information and Related Technology
Process and Control Objectives**

CobiT Process and Control Objectives		Information criteria ¹							Rating ² Scope		Internal Audit ⁴	Report Reference
		Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	Satisfactory/Recomm	Not in scope ³		
Planning and organisation												
P01	Define a strategic I&T plan	P	S						R			3.2
P02	Define the information architecture	P	S	S	S				✓			3.29
P03	Determine the technological direction	P	S							N		
P04	Define the I&T organisation and relationships	P	S							N		
P05	Manage the I&T investment	P	P				S		✓			3.32
P06	Communicate management aims and direction	P				S			✓			3.35
P07	Manage human resources	P	P							N		
P08	Ensure compliance with external requirements	P				P	S			N		
P09	Assess risks	S	S	P	P	P	S	S	✓			3.39
P10	Manage projects	P	P							N		
P11	Manage quality	P	P		P		S		✓			3.47
Planning and organisation overall ✓												
Acquisition and implementation												
AI1	Identify solutions	P	S							N		
AI2	Acquire and maintain application software	P	P	S		S	S			N		
AI3	Acquire and maintain technology architecture	P	P	S						N		
AI4	Develop and maintain I&T procedures	P	P	S		S	S		✓			4.3
AI5	Install and accredit systems	P		S	S		S			N		
AI6	Manage changes	P	P	P	P		S		✓			4.6
Acquisition and implementation overall ✓												

CobiT Process and Control Objectives

Information criteria ¹							Rating ² Scope		Internal Audit ⁴	Report Reference
Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	Satisfactory/Recomm	Not in scope ³		

Delivery and support

DS1	Define service levels	P	P	S	S	S	S		N	✓	
DS2	Manage third party service	P	P	S	S	S	S		N	✓	
DS3	Manage performance and capacity	P	P		S			✓		✓	5.7
DS4	Ensure continuous service	P	S		P			✓		✓	5.12
DS5	Ensure systems security		P	P	S	S	S	✓		✓	5.15
DS6	Identify and attribute costs		P				P	R		✓	5.25
DS7	Educate and train users	P	S						N	✓	
DS8	Assist and advise I&T customers	P							N	✓	
DS9	Manage the configuration	P			S		S		N	✓	
DS10	Manage problems and incidents	P	P		S			✓		✓	5.35
DS11	Manage data			P			P		N	✓	
DS12	Manage facilities			P	P				N	✓	
DS13	Manage operations	P	P		S	S			N	✓	

Delivery and support overall ✓

Monitoring

M1	Monitor the process	P	S	S	S	S	S	S	R		✓	6.5
M2	Assess internal control adequacy	P	P	S	S	S	S	S	✓			6.27
M3	Obtain independent assurance	P	P	S	S	S	S	S	✓			6.36
M4	Provide for independent audit	P	P	S	S	S	S	S	✓			6.40

Monitoring overall ✓

Notes to table:

- 1 P = a primary criteria addressed by the objective, S = secondary, a blank cell indicates the objective does not address the information criteria.
- 2 R indicates an ANAO recommendation.
- 3 Within time and cost constraints, the ANAO concentrated on controls critical to Centrelink's business.
- 4 ✓ indicates that Centrelink's Internal Audit considered Centrelink's performance against the objective satisfactory. The ANAO placed reliance on Internal Audit findings where such work was undertaken.

2. Financial Audit

The ANAO reported the results of its audit relating to Centrelink's financial statements in Report No.52 of 1999–2000, Control Structures as Part of the Audits of Financial Statements of Major Commonwealth agencies for the Period Ending June 2000.³ The relevant sections of this report that address Centrelink's I&T systems are summarised below.

Business and operating environment

2.1 Centrelink provides services in relation to the delivery of personal benefit payments and other payments on behalf of Commonwealth agencies. In the preparation of the annual financial statements, Centrelink and its client agencies place reliance on the control framework and specific controls supporting its information technology systems, including the development, implementation and support of systems and procedures for managing payments made to benefit recipients. From a financial perspective, those areas present the greatest risk of a material error occurring in the preparation of the financial statements and are the primary focus of audit attention.

2.2 As a result of the 1999–2000 audit of Centrelink's financial statements, a number of audit issues were raised with Centrelink relating to risk management generally, which when adequately addressed, will increase the level of assurance over the correctness of benefit payments. I&T system issues arising from the 1999–2000 financial statement audit are summarised below.

I&T systems and controls

2.3 Information technology is critical to Centrelink in terms of business performance, transaction processing and information storage. To minimise unauthorised or accidental security breaches, a fundamental component of the control environment focus is ensuring accessible but secure I&T systems. The matters raised by the ANAO identified a need for senior management to establish clearly the level of I&T security risk it is prepared to accept.

³ ANAO, Report No.52 of 1999–2000, *Control Structures As Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ending June 2000*, ANAO, Canberra, 2000.

2.4 The audit highlighted the importance of adopting a more strategic approach to I&T systems security and its integration into the overall risk management practices of Centrelink. I&T security risk assessments are central to this strategic management focus and play an important role in identifying areas of significant risk and the acceptability of existing controls. As systems change, continuous monitoring and review are required to establish the continued effectiveness of controls and the emergence of any new risks.

2.5 Where constant change in business and system environments is a key feature, Centrelink acknowledged that a sound control and risk management framework is necessary for security and access control evaluations. In this regard, Centrelink initiated a major review of I&T Security architecture in February 2000 that should address many of the audit issues raised.

I&T general control environment

2.6 A number of issues were highlighted by the ANAO's review of key components of Centrelink's general I&T control environment that supports specific business applications. Many of the issues had been raised by Internal Audit. Internal Audit's recommendations related to the areas of access control and monitoring, program change configuration, data and program changes and the testing of changed programs.

2.7 The ANAO noted that, because of the dynamic nature and size of Centrelink's business and I&T environment, many of the issues raised by Internal Audit are constantly being identified and actioned by management.

Income support systems

2.8 The income support systems (Pensions, Newstart, Parenting and Families) record customer details, including an individual's circumstances such as earnings, assets, children and housing. The nature of income support payment processing had lead to the presence of a number of duplicate records within the system. Duplicate records do not automatically mean there is the possibility of a duplicate payment. Many of the duplicate records contained redundant personal data with no benefit information. Centrelink is actively working to ensure that duplicate payments do not occur and that the controls in place are operating effectively.

Response

2.9 Centrelink agreed with the findings in the 1999–2000 audit of Centrelink’s financial statements. Centrelink advised the ANAO that considerable work is being undertaken to ensure that all business critical risks are addressed and appropriately controlled.

Conclusion

2.10 The ANAO financial statement information technology (IT) audit found that the results of testing indicated that reliance could be placed on Centrelink I&T systems and controls, and accuracy of the accounts and records, to the extent necessary to form an opinion on the agency’s financial statements.

3. Planning and Organisation

Key aspects of Centrelink's I&T planning and organisation are assessed in this chapter. In particular, the link between Centrelink's business goals and its I&T strategic planning is considered as well as the organisation of Centrelink's information systems, the management of its I&T investment, the communication of I&T aims and directions by management, risk assessment and quality management.

Overview

3.1 The CobiT domain '*I&T Planning and Organisation*' addresses the ANAO's audit objectives to identify the link between Centrelink's business objectives and its I&T strategies. It is sound practice to develop I&T plans that identify the way I&T can best contribute to the achievement of business objectives. These strategies need to be planned, communicated and managed. Table 2 below summarises the CobiT objectives for this domain and the conclusions reached by the ANAO against these objectives.

Define a strategic I&T plan

3.2 The ANAO assessed against CobiT criteria the processes underlying Centrelink's strategic I&T planning. This approach sought to establish whether:

- a structured planning approach had been adopted;
- a methodology existed to formulate and modify plans;
- I&T strategic planning considered Centrelink's vision, purpose and behaviours; and
- suitable risk assessments of I&T initiatives were conducted.

Table 2
**Control Objectives for Information and Related Technology
Process and Control Objectives—Planning and Organisation**
**CobiT Process and Control
Objectives**

Information criteria ¹							Rating ² Scope		Internal Audit ⁴	Report Reference
Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	Satisfactory/Recomm	Not in scope ³		

Planning and organisation

P01	Define a strategic I&T plan	P	S						R				3.2
P02	Define the information architecture	P	S	S	S				✓				3.29
P03	Determine the technological direction	P	S							N			
P04	Define the I&T organisation and relationships	P	S							N			
P05	Manage the I&T investment	P	P				S		✓				3.32
P06	Communicate management aims and direction	P				S			✓				3.35
P07	Manage human resources	P	P							N			
P08	Ensure compliance with external requirements	P				P	S			N			
P09	Assess risks	S	S	P	P	P	S	S	✓				3.39
P10	Manage projects	P	P							N			
P11	Manage quality	P	P		P			S	✓				3.47

Planning and organisation overall ✓

Notes to table:

- 1 P = a primary criteria addressed by the objective, S = secondary, a blank cell indicates the objective does not address the information criteria.
- 2 R indicates an ANAO recommendation.
- 3 Within time and cost constraints, the ANAO concentrated on controls critical to Centrelink's business.
- 4 ✓ indicates that Centrelink's Internal Audit considered Centrelink's performance against the objective satisfactory. The ANAO placed reliance on Internal Audit findings where such work was undertaken.

3.3 The ANAO examined I&T strategic planning at three levels—the organisation level that considers Centrelink’s vision, purpose and behaviours; the overall I&T level that considers I&T initiatives, including the Income Security Integrated System (ISIS) common platform; and the Pensions and Newstart business processes to obtain specific information at the payment level. Documentation relating to the following areas was examined to ascertain whether a methodology existed to ensure consistency and congruence across organisational levels including:

- Centrelink’s National Balanced Scorecard and its I&T Balanced Scorecard;
- I&T strategic plan management and monitoring structures;
- I&T Strategic Plans; and
- relevant Business Partnership Agreements.

Organisational planning

3.4 At the organisational level, Centrelink has implemented a planning framework that considers the core elements of organisational planning, that is, strategic, tactical and operational. These three elements are brought together and implemented through Business Improvement Plans.

3.5 Organisation planning culminates in, and is communicated by, a vision statement, a purpose statement, and a list of core behaviours and values for Centrelink. Planning for I&T business processes is undertaken in the context of this organisational business planning.

3.6 Centrelink’s planning framework considers key Centrelink stakeholders in the development of plans, including client agencies, customers, staff and the community. Six goals to achieving organisation wide commitments to stakeholders have also been identified relating to:

- 1) client agency partnerships;
- 2) customer and community;
- 3) Centrelink people;
- 4) cost efficiency;
- 5) innovation; and
- 6) better practice (better practice is not assessed against individual goals but as the sum of the total achievement against the other five goals).

3.7 Performance outcomes from the planning process are recorded in Centrelink's National Balanced Scorecard and in local balanced scorecards. Local balanced scorecards are designed to align to the National Balanced Scorecard to monitor performance at various levels. An I&T Balanced Scorecard has also been developed to align I&T goals and strategies to business objectives.

Strategic I&T planning

Roles and responsibilities

3.8 Ultimate accountability for Centrelink I&T services and output resides with the Centrelink Board. I&T leadership—including monitoring the I&T Strategic Plan—is effected by a process Centrelink call I&T Governance. I&T Governance is a concept established to determine and realise the frameworks, principles and processes for I&T at Centrelink. Responsibility to the Centrelink Board for I&T Governance resides with the Chief Information Officer and the I&T Leadership Group (I&TLG). The stated responsibilities of the I&TLG are to determine, implement and manage the I&T strategic and business plans with regard to business strategy, business priorities, technology capability, budget, people, structure, risk and legacy.

3.9 An I&T Governance Group supports the governance function across I&T as a whole. The aim of the I&T Governance support group is to facilitate and ensure the alignment of I&T strategy with Centrelink's strategic direction. Some of its key responsibilities are stated as:

- advising and supporting I&T governance to implement and use performance monitoring;
- developing and maintaining performance monitoring tools, metrics and capability in I&T;
- undertaking specific performance research and benchmarking activities; and
- developing and maintaining metrics on cost of delivery of I&T service and the product components.

3.10 Until recently, a Business Governance Council was used to oversee the relationship between business and I&T, and to ensure a strong partnership between I&T, business units and the service delivery network. This partnership facilitated decisions about the deployment of resources. Decisions could be taken with a detailed knowledge and understanding of the requirements, capacity and capability of all parts of the organisation. A restructure from July 1999 has seen this committee

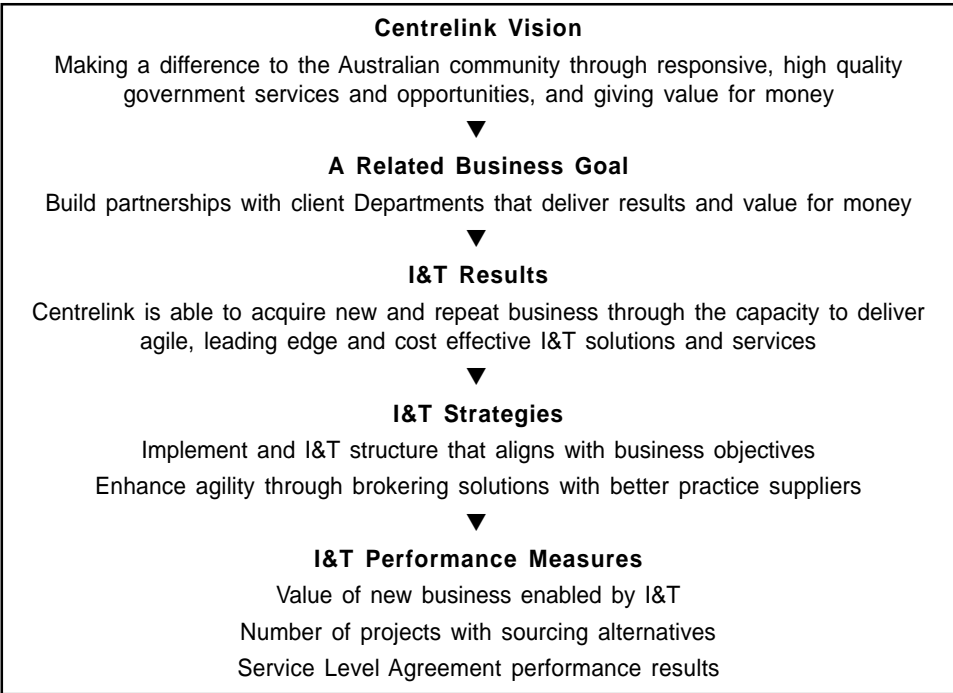
reinstated as the Business Management Council with the initial focus of establishing a framework for managing supply and demand issues within Centrelink.

I&T Strategic Plans

3.11 At the time of the audit, Centrelink had recently undertaken a major project—the I&T Strategic Planning Project—that had resulted in the identification of organisation-wide I&T strategies and related plans. The I&T strategic goals, outcomes, drivers and strategies were presented to the Centrelink Board and agreed to in October 1999.

3.12 The key outcomes of the I&T Strategic Planning process were the identification of specific I&T strategies linked to business objectives and the preparation of the I&T Balanced Scorecard. The I&T Balanced Scorecard was used to systematically align business and I&T goals and measures. An example of how Centrelink has used the I&T Balanced Scorecard to align its vision, business goals, I&T strategies and I&T performance measures is shown in the extract from Centrelink’s I&T Balanced Scorecard in Figure 1.

Figure 1
An Example of the Link Between a Business Goal and Centrelink’s I&T Balanced Scorecard



3.13 Centrelink's I&T Balanced Scorecard follows the structure of the Organisation Balanced Scorecard. Its purpose is to systematically align individual I&T Strategies to the business vision, purpose and behaviours and to the six organisational goals described at paragraph 3.6 above. It is also intended to serve as the tool for monitoring the implementation and success of the I&T Strategic Plan.

3.14 The I&T Balanced Scorecard was prepared by identifying I&T results and linking these to I&T strategy statements and I&T measures. I&T results are intended to reflect the planned impact of I&T on Centrelink's business goals. I&T strategy statements are a means of articulating how the I&T results will be achieved. These were developed with reference to, and were found to be consistent with, the I&T Strategic Planning process.

3.15 Centrelink advised the ANAO that Centrelink's organisational performance is monitored through its National Balanced Scorecard and, while the I&T Balanced Scorecard is subsidiary, the latter's performance measures were not intended to, and do not, automatically contribute directly to the National Scorecard measures.

3.16 While the ANAO acknowledges that Centrelink's National Balanced Scorecard is Centrelink's prime performance management tool and key accountability instrument, it considers that management would be enhanced if localised scorecards are aligned with national scorecards to monitor performance at various levels of the organisation.

3.17 In the case of Centrelink's I&T systems, the ANAO recognises that a direct link with the scorecards is not possible because Centrelink's Income Security Integrated System (ISIS) common platform was built well before they were developed. The ANAO, therefore, suggests that Centrelink consider developing its I&T Balanced Scorecard to make it consistent with the National Balanced Scorecard while tailoring it to suit specific I&T requirements. This would allow I&T performance measures to support, as well as relate, to Centrelink's National Balanced Scorecard which should be of significant advantage to management.

I&T performance measures

3.18 As reported above, Centrelink's I&T strategies describe the means by which its I&T Strategic Plan is to be achieved. To enable a judgement as to whether these strategies are working as intended, I&T performance information should be collected and reported to all stakeholders.

3.19 Collecting and reporting on I&T performance information are important because such information provides the basis for internal monitoring and decision making by management and the means by which external accountability is achieved. Performance information is a broad term that includes performance measures and indicators, and the assessment of the information collected.

3.20 Information on Centrelink's I&T performance should directly relate to Centrelink's business priorities and strategies and include information on identified critical factors that Centrelink is responsible for administering. The latter should include information on the production of outputs against suitable standards, targets and benchmarks. All these provide a basis for comparison as follows:

- standards relate to pre-defined levels of excellence or performance specifications;
- targets express quantifiable performance levels to be obtained by a specified date/time (targets are generally better practice identified through reference to industry standards and practices via benchmarking); and
- benchmarking involves matching and comparing practices within and between sectors/agencies.

3.21 To monitor its performance in implementing its I&T Strategic Plan, Centrelink had adopted a set of I&T measures that were intended to link and relate to each I&T strategy. In assessing these links, the ANAO found that I&T measures and performance information had been developed to assess the effectiveness of some, but not all, I&T strategies. Centrelink advised the ANAO that its I&T Balanced Scorecard reflected selected strategies and measures and was intended to focus monitoring on those particular strategies. Centrelink did not believe that limiting I&T performance information to selected strategies was a weakness in its performance framework because Centrelink's National Balanced Scorecard monitors organisational performance overall.

3.22 Centrelink's I&T strategies describe the means by which an 'I&T Result' will be achieved. Performance information should enable a judgement as to whether these I&T strategies are actually working. It should help to provide answers to the questions: 'to what extent are the outputs due to the I&T strategies adopted, are there contributing factors, and could better results be obtained with the same resources?' To answer these questions, Centrelink's managers need to be able to assess the contribution of each key I&T strategy being used.

3.23 To monitor the implementation of its I&T Strategic Plan the ANAO considers that Centrelink should confirm its key I&T strategy statements and ensure that each key I&T strategy contains clearly defined performance measures. This information would help Centrelink's managers to judge whether the I&T strategies being used by Centrelink to achieve its I&T Strategic Plan are the best given the circumstances, as well as aid decisions about future activities and directions across all Centrelink's I&T strategies. Centrelink informed the ANAO that targets monitored in the I&T Balanced Scorecard are to be broadened in the coming months.

3.24 For those I&T measures that had already been developed by Centrelink, the ANAO also found that suitable targets had not been determined with reference to industry standards and practices. This issue is discussed further in Chapter 6: Monitoring.

Recommendation No.1

3.25 To further assist Centrelink to monitor the implementation of its I&T Strategic Plan, the ANAO recommends that Centrelink confirm its key I&T strategy statements already in place and ensure that each key I&T strategy contains clearly defined performance measures.

Centrelink response

3.26 Agreed. Over recent months, Centrelink has been preparing its next Business Plan, covering the next financial year and beyond. The Centrelink Board of Management has considered this plan regularly and it is expected to be finalised shortly (after the Federal Budget). The I&T Strategic Plan is being updated to reflect the evolving business objectives of this Centrelink Business Plan and to ensure alignment with the articulated business strategies. Approval of the I&T Strategic Plan by the Centrelink Board is expected by July 2001.

3.27 The I&T Balanced Scorecard is being revised to include measures reflecting both the required business outcomes and strategic intentions. The I&T Balanced Scorecard currently aligns with the Centrelink Balanced Scorecard which reports against Centrelink's Strategic Goals. This alignment will continue although the effective use of the balanced scorecard approach does not require all measures in subordinate scorecards to be reflected in the whole of organisation scorecard.

3.28 Risk assessment at the I&T initiative level forms part of the approved I&T development methodology. As mentioned in the ANAO audit report, Centrelink has been improving its risk assessment and management capabilities through a number of related activities.

Define the information architecture

3.29 Centrelink's information architecture refers to the creation and maintenance of a business information model that best organises the information systems. In examining this element, the ANAO sought to establish whether Centrelink's information model:

- adequately defined all appropriate systems;
- was adequately documented, maintained and appropriately communicated; and
- clearly assigned ownership of data and related access rules.

3.30 Responsibility for maintaining the information model resides with Centrelink's Enterprise Architecture Team who have developed and maintained Income Security Integrated System (ISIS) Survival Guides and related documentation to support defining the information architecture. These are published and communicated in paper form and electronically on Centrelink's Intranet. Centrelink has also developed policies and standards relating to I&T security, data ownership and data classification. These are published and communicated in a similar manner.

3.31 The ANAO found that the current information architecture model is comprehensive and substantially complete.

Manage the I&T investment

3.32 The process of managing the investment is concerned with ensuring adequate funding for I&T systems and services and controlling the disbursement of allocated financial resources. This process is closely related to the CobiT objective '*Identify and Attribute Costs*' also addressed as part of this audit in Chapter 5. Managing the I&T investment is principally concerned with the higher level processes and frameworks developed by management to ensure consistency with other business areas and appropriate management involvement and ownership. The ANAO assessed the processes underlying Centrelink's management of the I&T investment against CobiT criteria.

3.33 The ANAO reviewed the Pensions and Newstart business I&T areas and found that the overall, higher level allocation and monitoring of I&T funding to business areas was consistent with Centrelink's overall budgeting process.

3.34 Interviews with Pensions and Newstart business area management confirmed their participation and involvement in the budgeting process. Policies and procedures were also found to exist to provide guidance and direction for regular monitoring and comparison of actual and budgeted costs.

Communicate management aims and direction

3.35 The I&T process '*Communicate management aims and direction*' is concerned with ensuring user awareness and understanding of management aims for the use and control of I&T. In examining the communication of management aims and direction for Centrelink, the ANAO adopted the CobiT framework and considered whether:

- a framework and awareness program existed that considered integrity, ethical values, codes of conduct, security and internal controls and accountability;
- the framework was consistent with other organisation programs;
- top management promotes a positive control environment by example; and
- senior management has formally accepted responsibility for developing a sound framework for the overall approach to I&T security.

Framework and awareness program

3.36 The ANAO found that an appropriate framework was in place covering integrity, ethical values, codes of conduct, security and internal controls and accountability. At the highest level, the framework was supported by Centrelink's 'Shared Behaviours' statement. This statement is part of Centrelink's Strategic Plan and promotes core behaviours including listening and maintaining mutual respect, integrity and ethics. I&T specific areas were identified including a policy and security framework that also promoted integrity, ethical values and accountability.

Management commitment

3.37 Centrelink's commitment to its Shared Behaviours is documented in Centrelink's Strategic Plan. The ANAO found that this reinforced and evidenced senior Centrelink management's commitment to a positive control environment.

3.38 The ANAO also concluded that Senior Centrelink management, through I&T Governance, had formally accepted responsibility for maintaining and communicating the need for integrity, ethical values and a framework for I&T security.

Assess risks

3.39 The process of assessing and managing risks is concerned with ensuring the achievement of business objectives and responding appropriately to threats to the provision of business services. In the case of Centrelink the assessment and managing of I&T risk should be a major component of an overall risk management strategy designed to protect its business continuity and assets. The identification, analysis, treatment and monitoring of threats to Centrelink's assets that are I&T related or dependent would require the expertise and input of the I&T areas. This would ensure specific I&T threats and risks can be effectively identified and managed in the context of the overall management of risk at Centrelink.

3.40 In assessing Centrelink's performance against this CobiT area, the ANAO sought to establish whether, at the higher level, management had implemented an effective overall risk management process that included:

- a systematic risk framework and approach;
- regular updates;
- consistency with and consideration of organisation wide objectives; and
- the formal acceptance of any residual risk.

3.41 According to the Australian/New Zealand Standard on Risk Management—AS/NZS 4360:1999 *Risk Management*—risk management is a logical and systematic method of identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that enables the organisation to minimise losses and maximise opportunities.

3.42 The Australian/New Zealand Standard on Risk Management also states that it is the responsibility of management to define and document its risk management framework and to ensure that risk management strategies are understood and implemented at all levels of the organisation.

3.43 The ANAO found that Centrelink had risk plans across a number of areas, including individual programs, fraud and field operations. Since the completion of the fieldwork for the audit, Centrelink has developed and communicated a comprehensive *Guide to Managing Risk* that aims to communicate a consistent and rigorous risk management framework and approach for Centrelink Teams and Leaders. The ANAO concluded that the overall framework was systematic, allowed for regular updates, was consistent with, and adequately considered, organisation wide objectives as well as adopting the key aspects of AS/NZS 4360:1999 *Risk Management*.

3.44 However, the ANAO identified that the *Guide to Managing Risk* did not require the formal acceptance of residual risk. Residual risk is the remaining level of risk after risk treatment measures have been identified and undertaken. The risk treatment options identified in the framework are 'avoid, reduce or transfer'. The formal acceptance of residual risk is a key process in risk management and recognises that all risk cannot be avoided and the lack of treatment acknowledged.

3.45 Following completion of the fieldwork for the audit, Centrelink informed the ANAO that senior management had accepted that a more integrated approach to risk management was required. A high level working group was established to develop a risk register and a risk management policy that complements existing risk management guidelines and this work is progressing. Centrelink's Risk Management Guidelines specifically identifies 'accept' as one of four treatment options. It reads:

Accept: After analysis, assessment and treatment, risks may still be considered uncontrolled. Acceptance of uncontrolled risks may be the only option. This decision must be made at the appropriate level of responsibility.

3.46 Centrelink's *Guide to Managing Risk* supports Centrelink's Risk Management Guidelines by elaborating on the risk management process defined. It specifically identifies accepting risk as a risk treatment option. The ANAO suggests that the definition of 'accept' be expanded to identify the level of responsibility at which a measure of risk may be accepted.

Manage quality

3.47 The process of managing I&T quality requires quality management standards and methodology. The CobiT criteria require an organisation to have a quality plan, defined quality assurance responsibilities, a system development life cycle, procedures for testing programs and systems, and regular quality assurance reviews and reporting.

3.48 Centrelink informed the ANAO that, as an initial stage to gaining full International Standards Organisation (ISO) accreditation, it has gained ISO accreditation for Help Desk and Output Management Services. Accreditation by the ISO, or by a similar organisation, would require that Centrelink develop and administer the above processes.

3.49 The CobiT objective of 'Manage Quality' relates to the CobiT objective 'Obtain Independent Assurance' addressed in paragraph 6.36 of this report.

4. Acquisition and Implementation

Centrelink's framework for developing and maintaining I&T procedures relating to its Pension and Newstart systems is assessed in this chapter. A particular focus is the change control procedures that are required to ensure that disruptions and unauthorised errors are minimised.

4.1 To realise Centrelink's I&T strategy, I&T solutions need to be identified, developed or acquired, implemented and integrated into its business process. Changes in, and maintenance of, existing systems need to be adequately controlled to ensure the continuation of the life cycle for I&T systems. The CobiT domain 'Acquisition and Implementation' addresses these requirements. The two CobiT areas most applicable to Centrelink are 'Developing and Maintaining I&T Procedures' and 'Managing Changes'. In this context, the ANAO examined Centrelink's:

- framework for developing and maintaining I&T procedures relating to the Pensions and Newstart business processes; and
- process for changing the I&T systems supporting the Pensions and Newstart business process.

4.2 Table 3 below summarises the CobiT objectives for this domain and the conclusions reached by the ANAO against these objectives.

Develop and maintain I&T procedures

4.3 Developing and maintaining appropriate I&T systems procedures is an essential element to ensure the efficient and effective use of existing applications and technological solutions. These objectives require a structured approach to the development of user and operations procedure manuals and related training requirements. The ANAO sought to establish whether Centrelink adopted a sound and structured approach to the development of user and operations procedures and training.

Table 3

**Control Objectives for Information and Related Technology
Process and Control Objectives—Acquisition and Implementation.**

**CobiT Process and Control
Objectives**

Information criteria ¹							Rating ² Scope		Internal Audit ⁴	Report Reference
Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	Satisfactory/Recomm	Not in scope ³		

Acquisition and implementation

AI1	Identify solutions	P	S						N		
AI2	Acquire and maintain application software	P	P		S		S	S	N		
AI3	Acquire and maintain technology architecture	P	P		S				N		
AI4	Develop and maintain I&T procedures	P	P		S		S	S	✓		4.3
AI5	Install and accredit systems	P			S	S		S	N		
AI6	Manage changes	P	P		P	P		S	✓		4.6

Acquisition and implementation overall ✓

Notes to table:

- 1 P = a primary criteria addressed by the objective, S = secondary, a blank cell indicates the objective does not address the information criteria.
- 2 R indicates an ANAO recommendation.
- 3 Within time and cost constraints, the ANAO concentrated on controls critical to Centrelink's business.
- 4 ✓ indicates that Centrelink's Internal Audit considered Centrelink's performance against the objective satisfactory. The ANAO placed reliance on Internal Audit findings where such work was undertaken.

4.4 The areas responsible for Pensions and Newstart system development and maintenance are the 'Retirement and Youth' and 'Expert Systems' teams respectively. The ANAO examined the detailed procedures for developing and using I&T that supports the Pensions and Newstart business processes. Procedures and documentation were identified by the ANAO relating to:

- high level system designs;
- Pensions and Newstart technical system guides;
- technical specifications securely stored and available to technical staff;
- business requirements' specifications for I&T supporting Pensions and Newstart; and
- user specifications signed off by appropriate user representatives.

4.5 The ANAO found that user, operational and technical procedures had been documented and adequately maintained. These procedures were also found to adequately address existing service levels and operational requirements.

Managing changes

4.6 The effective management of system changes is essential to minimise the likelihood of disruptions, unauthorised alterations and errors to the I&T systems that support Centrelink's business processes. Changes occur to Centrelink's I&T systems that support its business processes at least four times per year, with emergency changes also undertaken. This process consumes significant resources and is inherently an area of high risk. For these reasons, the ANAO considers the management of change at Centrelink to be one of its most critical I&T and business processes.

4.7 The ANAO assessed the effectiveness of Centrelink's management of changes to the I&T systems that support the Pensions and Newstart business processes by considering whether:

- a methodology existed for categorising and prioritising system changes;
- emergency change procedures are considered and adequately addressed;
- impact assessments are undertaken for all changes;
- adequate testing of changes is undertaken prior to moving into production;
- changes were authorised; and
- the change process was monitored for improvements to response and effectiveness.

4.8 The ANAO reviewed Centrelink's approach and processes for managing I&T system change across most business and compliance areas. The I&T systems and processes supporting the Pensions and Newstart business processes were examined by:

- assessing the completeness and timeliness of system documentation, including change procedures and related technical documentation;
- assessing logical system access security;
- reviewing emergency change controls and procedures;
- assessing controls over the transfer of programs from the test environment into production;
- assessing controls over which version of a system change is promoted to test and production; and
- ensuring changes were properly requested, approved, specified, coded and documented.

4.9 The ANAO found Centrelink's development and maintenance of I&T procedures, together with its management of change, to be generally satisfactory. Recent improvements in Centrelink's change management processes were identified, including the development and release of a new testing strategy, and an overall strategy to improve the quality of quarterly releases, or changes, that is overseen by a Senior Executive.

4.10 While the ANAO concluded that Centrelink's I&T procedures and management of changes were generally satisfactory, records and other relevant documentation describing the impact and testing of I&T changes did not completely address all recent changes and were not always updated promptly. The ANAO suggests, therefore, that adequate documentation of testing is maintained for all I&T system changes, including documentation of impact assessments and centralised change control procedures.

5. Delivery and Support

Centrelink's management of its I&T delivery and support is assessed in this chapter. Topics include continuity of I&T services, system security, cost attribution, and the management of I&T problems and incidents.

5.1 The CobiT domain '*Delivery and Support*' addresses the I&T process and control objectives relevant to I&T delivery and support. Relevant CobiT areas include managing performance and capacity, ensuring continuous service, ensuring systems security, identifying and attributing costs and managing problems and incidents. Table 4 below summarises the objectives of this domain.

5.2 I&T delivery ranges from traditional operations concerning I&T system security and continuity aspects through to I&T operations. In order for Centrelink to deliver agreed services to client agencies, the necessary support processes must be in place and operate effectively. For Centrelink, such support processes are driven from its mainframe computing operations. This CobiT domain also considers the processing of data, and therefore addresses controls over input, processing and output of the I&T systems.

5.3 While the ANAO reviewed five of the CobiT areas in detail as part of its financial statement audit, it relied upon an internal audit of Centrelink's mainframe computing operations conducted from July to October 1999 in forming an opinion for all 13 CobiT areas. In adopting this approach, the ANAO was satisfied that:

- the Centrelink internal audit was conducted in accordance with the appropriate standards of the Australian Society of Certified Practising Accountants, the Institute of Chartered Accountants in Australia, and the Institute of Internal Auditors Australia; and
- test programs and work papers were complete and appropriate to support audit conclusions.

Table 4**Control Objectives for Information and Related Technology
Process and Control Objectives—Delivery and Support.****CobiT Process and Control
Objectives**

Information criteria ¹							Rating ² Scope		Internal Audit ⁴	Report Reference
Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	Satisfactory/Recomm	Not in scope ³		

Delivery and support

DS1	Define service levels	P	P	S	S	S	S		N	✓	
DS2	Manage third party service	P	P	S	S	S	S		N	✓	
DS3	Manage performance and capacity	P	P		S			✓		✓	5.7
DS4	Ensure continuous service	P	S		P			✓		✓	5.12
DS5	Ensure systems security			P	P	S	S	✓		✓	5.15
DS6	Identify and attribute costs		P				P	R		✓	5.25
DS7	Educate and train users	P	S						N	✓	
DS8	Assist and advise I&T customers	P							N	✓	
DS9	Manage the configuration	P			S		S		N	✓	
DS10	Manage problems and incidents	P	P		S			✓		✓	5.35
DS11	Manage data				P		P		N	✓	
DS12	Manage facilities				P	P			N	✓	
DS13	Manage operations	P	P		S	S			N	✓	

Delivery and support overall ✓

Notes to table:

- 1 P = a primary criteria addressed by the objective, S = secondary, a blank cell indicates the objective does not address the information criteria.
- 2 R indicates an ANAO recommendation.
- 3 Within time and cost constraints, the ANAO concentrated on controls critical to Centrelink's business.
- 4 ✓ indicates that Centrelink's Internal Audit considered Centrelink's performance against the objective satisfactory. The ANAO placed reliance on Internal Audit findings where such work was undertaken.

5.4 The internal audit was conducted in accordance with the CobiT criteria relating to the 'Delivery and Support' domain. Centrelink Internal Audit rated the performance of Mainframe Operations against each criterion, and for each process Centrelink Internal Audit concluded satisfactorily.

5.5 The ANAO examined five of the 'Delivery and Support' areas in greater detail at a higher, 'business process' level than did internal audit. These five areas were selected as the Pensions and Newstart areas—at the business process level—had established specific processes to assist

I&T system operations and were also accountable in some manner for the delivery of these I&T system services. This involved additional work performed in the Pensions and Newstart systems area for the following five activities:

- manage performance and capacity;
- ensure continuous service;
- ensure systems security;
- identify and attribute costs; and
- manage problems and incidents.

5.6 The ANAO concluded that the performance by Centrelink at the Pensions and Newstart business process level was satisfactory for all but one of these areas, that is, *‘Identify and Attribute Costs’*. In this latter case, the ANAO did not agree with the internal audit findings. The reasons are discussed below at paragraphs 5.25 to 5.31.

Manage performance and capacity

5.7 Effective management of I&T system performance and computing capacity is important to ensure Centrelink has adequate capacity to meet current and future requirements. It also ensures the optimal use of available capacity to meet performance needs. These objectives need to be supported by management processes that collect data and report on workload management, application sizing, resource, and demand management.

5.8 The ANAO found that I&T system availability, performance and capacity requirements were adequately managed by a process driven by Centrelink’s business needs. Applications, such as Pensions and Newstart, were found to drive the capacity planning and performance reporting process through the ‘Application Support Group’. This approach included collecting and monitoring data relating to Central Processing Unit (CPU) usage and database (Model 204) file sizes and table sizes.

5.9 Centrelink’s ‘Capacity and Performance Reporting Group’—within the I&T Infrastructure Team—converts these needs into availability measures and requirements. Monthly performance reporting on CPU utilisation trends, disk storage trends, availability statistics and many other performance measures are prepared by the Capacity and Performance Reporting Group and disseminated to business areas—including Pensions and Newstart—for review and follow up. The ANAO also identified that fault tolerance measures, task prioritising and equitable resource allocation mechanisms existed to assist with the monitoring of resource availability requirements for Centrelink I&T systems.

5.10 On-line monitoring of CPU utilisation was also found to occur for all of Centrelink's environments. Logging of business critical events and follow up occur as part of this process. Also, third party services were found by the ANAO to be managed by a process that formally appointed a relationship owner responsible for ensuring the quality of relationships with third parties and, for each identified external relationship, contracts were defined and agreed upon. Security relationships, including non-disclosure agreements, were also found by the ANAO to be considered as part of the process for managing third party relationships.

5.11 The ANAO concluded that Centrelink's management of the I&T performance and capacity supporting the business processes, including Pensions and Newstart, was satisfactory.

Ensure continuous service

5.12 The activity of ensuring continuous service is concerned with making I&T services available as required and continuing to be provided in the event of a disruption. This is enabled by developing, implementing and testing disaster recovery, contingency and continuity plans that address I&T and business aspects. Aspects taken into account by the ANAO when considering Centrelink's performance in this area included the following requirements:

- an I&T continuity framework existed that defined the roles, responsibilities and risks;
- a written plan was available which considered procedures for:
 - emergencies;
 - recovering and responding to bring back the business to its state prior to the incident;
 - communicating with stakeholders such as employees, customers and suppliers;
 - safeguarding sites and personnel; and
 - information on continuity personnel and affected stakeholders;
- the I&T continuity plan was maintained;
- the I&T continuity plan was tested; and
- appropriate I&T continuity training, distribution, back up and administration occurred.

5.13 The ANAO found that a continuity framework was in place which considered the key CobiT aspects described above for the effective management of this process. For example, I&T continuity planning training, distribution, back-up and administration were also found to be satisfactory. Centrelink Internal Audit noted, however, that Centrelink had not completely tested their Business Continuity Management Plan for the Mainframe Operations centre.

5.14 Overall, Centrelink's process for ensuring continuous service from the I&T systems that support the Pensions and Newstart business processes was found to be satisfactory.

Ensure systems security

5.15 Ensuring systems security is concerned with safeguarding against unauthorised use, disclosure, modification, damage or loss Centrelink's information that is stored, disseminated and maintained by its I&T systems. The ANAO sought to assess the efficiency and effectiveness of Centrelink's performance against this requirement by considering whether logical access controls existed that ensured access to I&T systems, data and programs supporting the Pensions and Newstart business processes was restricted to authorised users.

5.16 The ANAO considered this objective at two levels—first, logical access to the underlying infrastructure (mainframe and related areas), and second, the effectiveness of logical access security to Pensions and Newstart specific programs and related I&T systems. The ANAO then assessed Centrelink's performance in this area by determining whether:

- logical access to the use of computing resources supporting the Pensions and Newstart business processes was restricted by appropriate mechanisms;
- regular monitoring of user access and changes to access rights occurred; and
- appropriate security incident handling procedures were established.

5.17 Centrelink's security architecture was found to consist of a number integrated systems that work together to provide a secure I&T environment. The systems currently used by Centrelink to ensure systems security are as follows:

- Access Control Facility 2 (ACF2)—Mainframe security systems;
- Solve:Net/Master—Secure Network Access system;
- NetWare Directory Services—Local Access Network (LAN) security system;
- SAMS—in-house developed security management system that provides automated LAN access management functionality in response to business rules established in the Human Resource Management System—SAP-HR;
- SAMS/390—in-house developed security management system for the automated management of mainframe user accounts and access profiles;
- INFOLINK—Centrelink's Financial Management and Human Resource Management System; and
- Accesslink—facility for staff authentication, one-time password generation and building access.

5.18 The ANAO focused on the security systems that affected the I&T systems supporting the Pensions and Newstart business processes. These systems were SAMS/390 ('SAMS') and ACF2. The main functions of SAMS were found to be:

- automation of user account management (user creation, deletion, suspension and activation); automation of security access right changes with job role changes via a link to the HRMS;
- uniform security management across all major platforms;
- one common interface to security management; and
- on-line security request and approval process.

5.19 SAMS is the 'front end' system. However, ACF2 is used as the password validation resource for all mainframe services. The ANAO conducted a detailed review of SAMS and ACF2 as part of the financial audit of Centrelink. At the time of the audit, the ANAO found:

- irregular monitoring by management of SAMS and ACF2 access to ensure consistency with business requirements;
- inadequate monitoring of privileged ACF2 and SAMS user access;
- inadequate contingency planning for SAMS; and
- over-reliance on key staff for SAMS operations.

5.20 Since the financial statement audit Centrelink has advised the ANAO that it has addressed the first two points above by:

- moving management of key ACF2 attributes to I&T Security operations;

- reviewing privileged account holders and reducing numbers by half; and
- conducting other reviews and restructuring of management responsibilities.

5.21 Centrelink advised the ANAO that it has commenced reviewing the use of SAMS with a view to replacing it with a commercial alternative, or, if no appropriate replacement can be found, expanding SAMS functionality. Centrelink also advised that it has commenced training and broadening the SAMS operator base.

5.22 Centrelink provides mainframe access to a client agency associated with the Pensions and Newstart business processes. Centrelink informed the ANAO that access by this client is fully controlled through SAMS/390 and ACF2.

5.23 As part of the performance audit, the ANAO concluded that the structure of Centrelink's I&T system security is satisfactory. The systems could be improved by addressing the concerns identified in paragraph 5.19.

5.24 In its response to the ANAO's 1999–2000 audit of Centrelink's financial statements, Centrelink acknowledged that a control and risk management framework should be used for security and access control evaluations. In this regard, Centrelink initiated a major review of I&T Security architecture in February 2000 that should address many of the issues raised in the 1999–2000 audit of Centrelink's financial statements (see paragraph 2.3 of this report).

Identify and attribute costs

5.25 Centrelink faces a continuing challenge to deliver its services with fewer resources. Its client departments will, increasingly, be tasked with the procurement of these services in a more contestable market. Whether the contract is with other government agencies or outsourced to the private sector, appropriate rates or market 'prices' will need to be developed on the basis of full costs. In order to maintain its performance and competitive position, Centrelink requires accurate costing information to:

- assist its management to plan, control, organise and make decisions to ensure the efficient allocation of scarce resources; and
- provide its client departments with a clear understanding of what service is to be provided, at what standard and at what price.

5.26 Identifying costs is an essential process in ensuring management's awareness of costs directly attributable to I&T services. The ANAO sought to determine whether Centrelink had a cost accounting system that ensures costs are recorded, calculated and allocated to the required level of detail.

5.27 During the fieldwork for the audit, the ANAO found that costing and budgeting for the services it assessed—such as assessments, payments, cards, letters and reviews for agreed Pensions and Newstart services—had not been fully developed by Centrelink. Consequently, the ANAO concluded that Centrelink did not have a mechanism to ensure that the delivery by its I&T services relating to the Pensions and Newstart business processes is cost justified and in line with industry costs.

5.28 Cost justification means that costs incurred on the I&T systems supporting the Pensions and Newstart business processes are justified, or warranted. Effective cost justification would ensure that actual I&T expenditure is consistent with industry and other comparable standards. This can ultimately evidence the efficient and effective management of the investment by Centrelink in the I&T systems that support the Pensions and Newstart business processes.

5.29 The use of cost data for decision making and performance evaluation is hampered by the difficulty of allocating costs that are related to a number of operating units or span several programs, such as those for I&T. In these situations, systems such as Activity Based Costing (ABC) have emerged to provide managers with more accurate cost information about the operations of their organisation. Centrelink informed the ANAO that I&T is involved in the ABC project currently being undertaken within Centrelink. Effective implementation of ABC should enable I&T costs to be identified in relation to Centrelink services.

5.30 In addition to this action, Centrelink advised the ANAO that 'Work Break-down Structures' are used in managing projects. This method allows I&T costs to be identified separately for reporting purposes and is currently being utilised to identify true cost for internally developed software. Centrelink's I&T group has also introduced effort recording in attempt to acquire more detailed metrics, which will be used to more accurately identify costs associated with I&T services.

5.31 While a fully functional costing model, such as ABC, has the potential to provide Centrelink with more accurate cost information, such models are dependent upon the availability of considerable operational data. These findings indicated that, although Centrelink had progressed the implementation of ABC across its systems, more data were required on the costs incurred in delivering I&T services supporting business processes.

Recommendation No.2

5.32 To assist in implementing Activity Based Costing (ABC) and to hasten the identification of the true cost of delivering Pensions and Newstart services, the ANAO recommends that Centrelink develops accurate, timely and relevant information relating to the cost incurred in delivering I&T services supporting business processes.

Centrelink response

5.33 Agreed. A number of existing processes and initiatives relating to cost identification mentioned in the ANAO audit report have improved the identification of the cost of delivering I&T services in relation to the business processes they support. These processes and initiatives include the completed implementation of an effort recording system enabling costs to be directly apportioned to outputs. The accrual costing methodology in place enables full costs, such as depreciation, to be represented. Allocation of overhead costs within the I&T Group is being improved to better capture total cost. Scheduling of effort at the activity level enables identification of costs at the business project level. The full allocation methodology (Function Point/Business Matrix) enables identification of the relationship between I&T and business outputs.

5.34 In addition, Centrelink continues to progress its organisation wide Activity Based Costing exercise and I&T actively participates in this exercise.

Manage problems and incidents

5.35 The purpose of effectively managing problems and incidents is to ensure their resolution and to identify the cause in order to prevent any manageable recurrence. The ANAO considered this objective at two levels:

- managing problems and incidents affecting the underlying infrastructure (mainframe and related areas); and
- managing problems and incidents directly affecting Pensions and Newstart specific programs and related I&T systems.

5.36 The ANAO then assessed Centrelink's performance in this area by determining whether:

- an effective problem management process and system existed;
- problem escalation procedures exist to ensure the effective resolution of identified problems and incidents; and
- adequate problem tracking exists and sufficient audit trails are maintained and retained for system problems.

5.37 Centrelink has a formal problem and incident management process that is supported by the use of a problem management system—AIMS. Helpdesks have been established for both Pensions and Newstart technical and administrative users. It is at this point that problems and incidents are identified and entered into AIMS. Through the proper use of AIMS, Centrelink can record, analyse, prioritise, escalate and report problems and incidents and their resolution in an effective manner.

5.38 Documented procedures and standards for problem and help desk management were found to exist at the business process level—Pensions and Newstart Help Desk Operating Procedures—and at the common platform level—Income Support System procedures. These procedures addressed the process for recording problems, prioritising problems, escalating and reporting problems. For example, Centrelink has introduced and documented a standard process for classifying problems. This classification system enables a consistent definition and process to be applied across all areas of Centrelink. Similar procedures have been introduced for recording, escalating and reporting problems and incidents.

5.39 The ANAO found Centrelink's management of problems and incidents was satisfactory at both the infrastructure/operations level and for the I&T systems directly supporting the Pensions and Newstart business processes.

6. Monitoring

Centrelink's monitoring of its I&T systems is assessed in this chapter.

6.1 An audit objective was to 'determine whether monitoring arrangements allowed Centrelink's managers to assess the quality of I&T processes and compliance with control requirements'. The relevant CobiT domain is 'Monitoring of I&T Systems'. As well as assessing Centrelink's monitoring of its I&T processes, the ANAO also assessed Centrelink's evaluation of the adequacy of its internal controls; whether Centrelink had obtained independent assurance of its systems; and whether Centrelink I&T systems were audited independently. Table 5 below summarises the CobiT objectives and the ANAO's conclusions against those findings.

Table 5

**Control Objectives for Information and Related Technology
Process and Control Objectives—Monitoring.**

		Information criteria ¹								Rating ² Scope			
		Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	S'tactory/Recomm	Not in scope ³	Internal Audit ⁴	Report Reference	
Monitoring													
M1	Monitor the process	P	S	S	S	S	S	S	R		✓	6.5	
M2	Assess internal control adequacy	P	P	S	S	S	S	S	✓			6.27	
M3	Obtain independent assurance	P	P	S	S	S	S	S	✓			6.36	
M4	Provide for independent audit	P	P	S	S	S	S	S	✓			6.40	
Monitoring overall												✓	

Notes to table:

1 P = a primary criteria addressed by the objective, S = secondary, a blank cell indicates the objective does not address the information criteria.

2 R indicates an ANAO recommendation.

3 Within time and cost constraints, the ANAO concentrated on controls critical to Centrelink's business.

4 ✓ indicates that Centrelink's Internal Audit considered Centrelink's performance against the objective satisfactory. The ANAO placed reliance on Internal Audit findings where such work was undertaken.

Overview

6.2 Key I&T processes need to be regularly assessed and monitored for their quality and compliance with control requirements. The effective monitoring of I&T systems and processes can assist in ensuring the achievement of objectives set for the I&T processes. The ANAO examined the effectiveness of the monitoring process by considering whether Centrelink management had defined:

- relevant reporting and performance indicators;
- targets based on relevant benchmarks; and
- management reporting requirements.

6.3 The ANAO examined these areas at two levels;

- the identification and reporting of I&T system dependent performance measures to non-I&T users, including Centrelink's client agencies and Centrelink non-I&T management; and
- the identification of internal I&T system performance measures and the reporting of the results of performance against these measures.

6.4 I&T system dependent performance measures were considered by the ANAO to be those measures that relied upon the Income Security Integrated System (ISIS) platform and related manual processes for gathering performance data, reporting results and ensuring the integrity of reported results.

Monitor the processes

6.5 Effective monitoring of I&T processes makes it possible to assess the extent to which the objectives set for the I&T system have been met. Monitoring would be enabled by Centrelink management defining relevant reporting and performance indicators, implementing supporting systems and acting appropriately on reported results. The ANAO assessed the performance of Centrelink in this area by considering whether Centrelink had:

- identified key performance indicators and targets to measure I&T system performance; and
- implemented adequate external and internal I&T systems reporting for both I&T users and non-I&T users such as client agencies, external auditors and senior management.

Development of performance indicators

6.6 Centrelink and its clients—both internal and external—require a common understanding of the level of service to be provided by the I&T systems that support the Pensions and Newstart business processes. Such an understanding is enabled by appropriate I&T system performance indicators, against which the quantity and quality of the I&T system outputs that support the Pensions and Newstart business processes can be measured. Accordingly, the ANAO reviewed the appropriateness of Centrelink's I&T system performance indicators and related reporting for management purposes.

External performance targets

6.7 Non-I&T users include Centrelink's client agencies. Currently, Centrelink's reporting of performance to these non-I&T users largely focuses on agreed client agency targets prescribed in Business Partnership Agreements; that is, non-I&T specific, but I&T dependent indicators. Examples include targets relating to payment accuracy, timeliness and customer satisfaction.

6.8 Centrelink informed the ANAO that Pensions and Newstart business processes cover a number of different outcomes (payments and services) and do not have a direct equivalent with I&T processes or outputs. As Pensions and Newstart do not exist as discrete I&T systems, the performance measures applying to the business outcomes do not equate to performance measures against which I&T outputs can be measured.

6.9 Consequently, Centrelink's performance measures for client agency outcomes are not necessarily applicable as I&T performance measures. Instead, internal I&T performance measures are intended to monitor the performance for I&T processes and outputs which generically support a range of business processes. Inherent in this approach is Centrelink's reliance on the internal targets developed for its I&T system effectiveness, efficiency and control. Accordingly, the ANAO focused on Centrelink's internal performance targets.

Internal performance targets

6.10 Performance targets express quantifiable performance levels or changes of level to be attained at a future date, as opposed to the minimum level of performance. Internal performance targets should focus on internal factors that managers can influence. These may relate to either the overall program or the factors that lead to success and should provide the basis for early problem identification and solution.

6.11 Establishing targets requires access to appropriate/comparable benchmarks. These can be:

- internal, that is, comparisons of the same activity between different parts of the same organisation;
- external, that is, comparisons with other organisations of the same activity; and/or
- generic, that is, comparisons of similar processes with other organisations which may have different products or processes.

6.12 The Infrastructure Section within Centrelink (including Mainframe Computing Operations) is responsible for, or has a significant role in, identifying targets for the following I&T system areas:

- system availability;
- system performance;
- level of user support;
- I&T system continuity planning;
- disaster recovery planning;
- I&T system mainframe job scheduling;
- change and problem management;
- service level agreements;
- mainframe access;
- staff training requirements;
- configuration management; and
- capacity planning.

6.13 In terms of internal control targets, Centrelink's internal audit program regularly identifies internal control targets relating to these areas and reports performance by the I&T systems against these targets. The ANAO's financial audit of Centrelink also annually identifies relevant internal I&T system control targets relating to these areas and assesses actual performance against them.

6.14 Specific I&T systems targets supporting the Pensions and Newstart business processes that are examined annually as part of the financial audit include:

- completeness, validity, timeliness and accuracy of I&T system inputs, data processing and system outputs;
- effectiveness of change management and problem management processes for the I&T systems;

- effectiveness of I&T systems security; and
- effectiveness of I&T systems detective controls, including compliance systems and programs.

6.15 The ANAO found that these I&T system specific performance targets had not always been developed with reference to comparable activities within Centrelink or other organisations. The ANAO noted that Centrelink (and the former Department of Social Security) had undertaken several benchmarking exercises and gathered relevant benchmarking information pertaining to:

- Applications Development—1993;
- Data Centre—1996;
- Inter-agency Applications Development—1994; and
- Efficiency from On-Line Data Processing—1996.

6.16 The ANAO found, however, that Centrelink's internal performance targets for I&T had not been developed with reference to these or other industry standards and practices. For targets to be effective, they should be designed with reference to comparable better practice. While Centrelink had developed internal performance measures for its I&T system, it was not in a position to compare its performance against targets that represented recognised better practice.

6.17 Centrelink's view was that both industry and I&T environments have moved on in the years since the above exercises were undertaken. In this regard, Centrelink was initiating a project to benchmark its I&T and Requests for Tender were advertised on 30 September 2000. Following the fieldwork for this audit, the Centrelink advised the ANAO that the Tenders had closed and the successful tenderer was being selected.

6.18 Centrelink also informed the ANAO that Function Point Analysis (an international standard) had been used in I&T for several years to measure the size of application software and the changes undertaken in its quarterly major software release cycle. For instance, significant projects such as the Newstart Common Platform were benchmarked using Function Point Analysis. The Newstart Common Platform, implemented in 1998, represented substantial changes for I&T outputs contributing to Newstart and related business outcomes. Results showed that practice levels were consistent with those in the wider industry. The worldwide benchmark had also been used as a point of comparison. Centrelink's defect rate of 28 per 1000 function points compared favourably with the average for government of 60, particularly, given the complexity and extent of change of Centrelink's environment.

6.19 The ANAO recognises that Function Point Analysis is a useful measure of some aspects of I&T. However, Function Point Analysis will not provide a comprehensive picture of I&T performance. The ANAO considers that I&T performance information should be balanced and all key aspects of I&T need to be benchmarked.

Recommendation No.3

6.20 To provide a comprehensive picture of I&T performance, the ANAO recommends that Centrelink's I&T performance indicators and targets are designed with reference to comparable better practice and measure key aspects of its I&T systems.

Centrelink response

6.21 Agreed. Centrelink agrees with the broad philosophy outlined. A number of activities are already underway as mentioned in the ANAO audit report. These include benchmarking of I&T against an external peer group, continued use of Function Point Analysis and expansion of the current quality certification (ISO 9000 series) accorded to the processes followed in the I&T Service Centre.

Reporting against internal performance indicators

6.22 The effective reporting of I&T system performance against internal performance indicators should ensure that a consistent process exists for:

- identifying what relevant information is to be captured;
- determining the regularity of reporting;
- ensuring the consistency of reporting;
- ad-hoc reporting; and
- monitoring and follow up.

6.23 The ANAO assessed Centrelink's performance in this area by:

- reviewing the results of relevant internal audits performed by Centrelink on the Model 204 Database Management System and Mainframe Operations; and
- reviewing reporting against internal performance indicators at the business process level for Pensions and Newstart.

6.24 Centrelink's internal audit of Mainframe Operations concluded that the monitoring and reporting on I&T system performance, capacity, service level agreements and managing third party services was satisfactory.

6.25 The Centrelink internal audit of the administration and management of Model 204 Database Management System found that system performance reporting for both technical and non-technical users was of a high standard. However, it was noted, as a minor finding, that there was a lack of formal, high-level reporting procedures and formats.

6.26 Reporting and monitoring performance against internal performance indicators at the Pensions and Newstart business process level were also reviewed by the ANAO. The nature of the information to be captured was, in comparison to the operations areas, minor. However, it included measurements relating to the effectiveness and efficiency of the change management and problem management processes.

Assess internal control adequacy

6.27 Assessing internal control adequacy is concerned with ensuring the achievement of internal control objectives for the I&T systems and processes. This objective is enabled by management's commitment to monitoring internal controls, assessing their effectiveness and reporting on them on a regular basis.

6.28 The ANAO assessed Centrelink's performance against this area by considering whether Centrelink:

- continuously monitored internal controls; and
- reported regularly to management on the effectiveness and efficiency of internal controls.

6.29 Centrelink's Board of Management is responsible for Centrelink's corporate governance, and ensuring Centrelink's functions are performed properly, efficiently and effectively. Membership of the Board includes an independent Chairperson, the Centrelink Chief Executive Officer, three independent members, and the Secretaries of the Departments of Family and Community Services, and Employment, Workplace Relations and Small Business. The Board meets monthly, or more often if required. The Board has established committees to assist it in its functions, one of which is the Audit Committee.

6.30 Centrelink operations and other I&T systems and areas that support the Pensions and Newstart business processes were found to have implemented internal controls relating to their areas. Examples of controls identified by the ANAO included policies covering authorisation, change control, monitoring of system performance reporting and follow up of the reports, logical access controls and physical access controls.

6.31 Centrelink has established Centrelink Audit within its Business Assurance Services cluster. The Centrelink Audit teams conduct internal control monitoring and appraisal for the Audit Committee of the Board. This arrangement complements and significantly strengthens line management's systems of assessing and monitoring internal controls.

6.32 The scope of reviews by Centrelink Audit is wide reaching. The ANAO identified that the Chief Auditor conducts the program of the external Board's Audit Committee and reports to it on the specification, implementation and progress of the program. This program includes assessing the quality of Centrelink's systems of control and the quality of Centrelink's performance, as evaluated against agreed standards; and assisting Centrelink's management by providing advice on steps that can be taken to strengthen internal controls. Centrelink Audit use benchmarks and better practice standards, including the CobiT guidelines, to conduct reviews.

6.33 Centrelink's Chief Auditor reports directly to the Board's Audit Committee. Reports are copied to relevant 'internal clients', and to the Chief Executive Officer and the Chief Information Officer.

6.34 The ANAO, as Centrelink's external auditor, also provides annual reports to Centrelink management and to the Minister for Family and Community Services on the internal control effectiveness of Centrelink's I&T and related processes that support reported amounts in the financial reports. These control reviews cover many aspects of Centrelink's activities and act as a complementary aspect to Centrelink's continuous monitoring of internal controls. The ANAO is invited to attend Centrelink's Audit Committee and to report on its findings for I&T related and other issues.

6.35 These aspects, combined with internal reporting and related controls at the I&T operations level, led the ANAO to conclude that Centrelink's performance against the CobiT objectives relating to this area was satisfactory.

Obtain independent assurance

6.36 Independent assurance is an approach to providing for an increased level of confidence in the system being used by an organisation. It is enabled by independent assurance reviews carried out at regular intervals. The ANAO assessed Centrelink's performance against the CobiT objectives relating to this area by considering whether Centrelink management had implemented an assurance process that considered:

- independent certifications and accreditation;
- independent effectiveness evaluations;
- performance of assurance reviews by qualified personnel; and
- active audit involvement.

6.37 The ANAO found that Centrelink had obtained independent, expert certification for their network and firewall from the Defence Signals Directorate (DSD). This is a stringent program of accreditation acknowledged as a significant commitment to the secure storage and transmission of information on the Centrelink network.

6.38 Centrelink informed the ANAO that, as an initial stage to gain International Standards Organisation (ISO) or similar quality accreditation, Centrelink Infrastructure Services has achieved ISO accreditation for Help Desk and Output Management Services. Centrelink had not, however, undergone ISO or similar quality accreditation for its I&T function, as a whole. ISO or a similar quality accreditation would evidence Centrelink's commitment to quality and best practice and give confidence to external organisations, client agencies and customers. The ANAO noted that Centrelink is considering extending its ISO accreditation relating to I&T systems and processes, where appropriate and cost effective.

6.39 Centrelink Audit addresses assurance reviews and engages in pro-active audit involvement. The work of Centrelink Audit is discussed below.

Provide for independent audit

6.40 Independent audit, both by the organisation's Internal Audit and by external auditors, increases confidence levels and can provide benefits from better practice advice. The ANAO considered, in relation to Centrelink's I&T function:

- audit independence;
- performance of audits by qualified personnel; and
- appropriate clearance of, and action on, findings and recommendations.

6.41 Centrelink Audit provides the internal audit function for Centrelink. The ANAO relied on an external review conducted on Centrelink Audit (then the Assurance and Assessment Group) by a private sector organisation, and on the ANAO's financial statement audit work to seek assurance on the internal audit function. The ANAO found that the independent review of Centrelink Audit affirmed that:

- internal audits are conducted in accordance with the appropriate auditing and accounting standards;
- Centrelink Audit has developed its own acceptable methodology that covers the key aspects of the appropriate professional body standards;
- the organisational status of Centrelink Audit supported the unbiased reporting of audit results, with the Chief Auditor having direct access to Centrelink's Audit Committee of the Board; and
- the scope of the internal audit function appeared complete in that there is a planned approach to ensure adequate coverage of key functional areas, with flexibility to include ad-hoc areas into the audit plan.

6.42 Centrelink Audit is also responsible for the development and implementation of a monitoring program that consolidates, follows up on, and clears, findings from internal and externally based financial statement audits.

6.43 The ANAO annual audit of Centrelink's financial statements has a major I&T audit component. In addition, the ANAO conducts a selected number of performance audits in Centrelink each year. These performance audits can include components that consider I&T aspects of Centrelink's performance. As stated above, ANAO audit reports are provided to the Centrelink Executive, the Minister for Family and Community Services, and to Centrelink's Audit Committee.

6.44 The ANAO found that a satisfactory internal and external independent audit process existed for Centrelink's I&T operation.



Canberra ACT
28 May 2001

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Centrelink's Information & Technology Environment

In order to place the size and complexity of Centrelink's I&T operations in perspective, Centrelink provided the following information contained in this Appendix.

Centrelink is one of Australia's 100 leading information technology users. Centrelink's mainframe systems architecture is highly integrated, so that, instead of a person having to provide their details a number of times to receive a number of different services, they provide their information only once.

Centrelink is ranked number 5 out of Australia's top 500 users of PC/ Notebook/Server technologies. The whole of Centrelink's customer service sits on a technology platform which is ranked number 4 across the country for the size of its IT network.

A data communications network supports online transaction processing, file and message transfer, and connection of work-stations and peripheral devices.

On a typical day, Centrelink's Information & Technology (I&T) supports:

- 31 800 desktop computers (4th largest in Australia) and 400 network servers in over 1000 locations;
- over 22 000 users;
- 12 million online transactions (3rd largest in the world), with an average response time of less than three seconds, and a systems availability of 99.9 per cent during business hours;
- updating 9000 information items per customer on 14 million customer records (9th largest in the world);
- 8000 batch jobs;
- using more than 8500 MIPS (**M**illions of **I**nstructions **P**rocessed per **S**econd) on mainframe processing alone; and
- processing 25 terabytes (i.e. 25 million megabytes) of knowledge data each week.

Centrelink provides services to over 22 business clients and at any one point in time I&T is usually working on 29 releases concurrently, resulting in approximately 1500 software releases each year. The rate of change to Centrelink's mainframe systems is significantly higher than the industry norm and is considered world leading.

This financial year to the end of March, there have been in excess of 115 million payments lodged with the Reserve Bank of Australia for distribution, electronically, through 350 financial institutions to people who have been granted a payment of benefit. In the last financial year, Centrelink distributed more than \$43.5 billion in welfare payments.

Triggers from Centrelink's database issue 110 million letters enclosing health care cards, advice of changes to payments, and review requests.

This infrastructure and I&T capability allows Centrelink to provide Australians with the widest possible access to its services. Given Centrelink's national focus, it is looking at ways in which to make its services even more accessible through e:business infrastructure and e:service projects and a range of other communications and IT based initiatives. Some of the major projects are:

- the Centrelink Online project is delivering the I&T infrastructure required to enable Centrelink's electronic service deliver initiatives to proceed;
- the EDGE Decision Support project is a rules based expert system that assists Centrelink staff deliver accurate and appropriate service to customers;
- the Accessing Centrelink project is developing a generic admission procedure across all 'life events' with access to all Centrelink products and services; and
- Call Centre Automation is offering multiple channels of electronic access for customers.

Appendix 2

CobiT: Control Objectives for Information and Related Technology

CobiT EXECUTIVE OVERVIEW⁴

Critically important to the success and survival of an organisation is effective management of information and related Information Technology (IT). In this global information society—where information travels through cyberspace without the constraints of time, distance and speed—this criticality arises from the:

- increasing dependence on information and the systems that deliver this information;
- increasing vulnerabilities and a wide spectrum of threats, such as cyber threats and information warfare;
- scale and cost of the current and future investments in information and information systems; and
- potential for technologies to dramatically change organisations and business practices, create new opportunities, and reduce costs.

For many organisations, information and the technology that supports it represent the organisation's most valuable assets. Moreover, in today's very competitive and rapidly changing business environment, management has heightened expectations regarding IT delivery functions. Truly, information and information systems are pervasive throughout organisations—from the user's platform to local and wide area networks to client servers to mainframe computers. Thus, management requires increased quality, functionality, and ease of use; decreased delivery time; and continuously improving service levels—while demanding that this be accomplished at lower costs. Many organisations recognise the potential benefits that technology can yield. Successful organisations, however, understand and manage the risks associated with implementing new technologies. Thus, management needs to have an appreciation for and a basic understanding of the risks and constraints of IT in order to provide effective direction and adequate controls. CobiT helps bridge the gaps between business risks, control needs and technical issues. It

⁴ This Executive Overview is taken from the CobiT Executive Summary, April 1998 2nd Edition. CobiT is copyright 1996, 1998, 2000 Information Systems Audit and Control Foundation. Reprinted with the permission of the Information Systems and Control Foundation and IT Governance Institute.

provides good practices across a domain and process framework and presents activities in a manageable and logical structure. CobiT's 'good practices' means consensus of the experts—they will help you optimise your information investment, but foremost they are what you will be judged upon when things do go wrong.

Organisations must satisfy the quality, fiduciary and security requirements for their information, as for all assets. Management must also optimise the use of available resources including data, application systems, technology, facilities and people. To discharge these responsibilities, as well as to achieve its objectives, management must establish an adequate system of internal control. Thus, an internal control system or framework must be in place to support the business processes and it must be clear how each individual control activity satisfies the information requirements and impacts the resources. Impact on IT resources is highlighted in the *CobiT Framework* together with the business requirements for effectiveness, efficiency, confidentiality, integrity, availability, compliance and reliability of information that need to be satisfied. Control which includes management's responsibility. Management, through its corporate governance, must ensure that due diligence is exercised by all individuals involved in the management, use, design, development, maintenance or operation of information systems. An IT Control Objective is a statement of the desired result or purpose to be achieved by implementing control procedures within a particular IT activity.

Business orientation is the main theme of CobiT. It is designed not only to be employed by users and auditors, but also, and more importantly, as a comprehensive checklist for business process owners. Increasingly, business practice involves the full empowerment of business process owners so they have total responsibility for all aspects of the business process. In particular, this includes providing adequate controls. The *CobiT Framework* provides a tool for the business process owner that facilitates the discharge of this responsibility. The *Framework* starts from a simple and pragmatic premise:

In order to provide the information that the organisation needs to achieve its objectives, IT resources need to be managed by a set of naturally grouped processes.

It continues with a set of 34 high-level Control Objectives, one for each of the IT processes, grouped into four domains: planning & organisation, acquisition & implementation, delivery & support, and monitoring. This structure covers all aspects of information and the technology that supports it. By addressing these 34 high-level Control Objectives, the business process owner can ensure that an adequate control system is provided for the IT environment. In addition, corresponding to each of the 34 high-level Control Objectives is an audit, or assurance, guideline to enable the review of IT processes against CobiT's 302 recommended detailed control objectives to provide management assurance and/or advice for improvement. CobiT contains an *Implementation Tool Set*, which provides lessons learned from those organisations that quickly and successfully applied CobiT in their work environments. It includes an Executive Summary for senior management awareness and understanding of CobiT's key concepts and principles. The implementation guide has two useful tools—Management Awareness Diagnostic and IT Control Diagnostic—to assist in analysing an organisation's IT control environment.

The management of the organisation needs generally applicable and accepted IT governance and control practices to benchmark their existing and planned IT environment. CobiT is a tool that allows managers to communicate and bridge the gap with respect to control requirements, technical issues and business risks. CobiT enables the development of clear policy and good practice for IT control throughout organisations, worldwide. It is CobiT's goal to provide these control objectives, within the defined framework, and obtain endorsement from commercial, governmental and professional organisations, world-at-large.

Thus, CobiT is intended to be *the* breakthrough IT governance tool that helps in understanding and managing the risks associated with information and related IT.

Table 6 below lists the full range of CobiT process and control objectives and the information criteria that they address.

Table 6**Overview of CobiT objectives and the criteria that they address.****CobiT Process and Control Objectives**

Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability
---------------	------------	-----------------	-----------	--------------	------------	-------------

Planning and organisation

P01	Define a strategic I&T plan	P	S				
P02	Define the information architecture	P	S	S	S		
P03	Determine the technological direction	P	S				
P04	Define the I&T organisation and relationships	P	S				
P05	Manage the I&T investment	P	P				S
P06	Communicate management aims and direction	P				S	
P07	Manage human resources	P	P				
P08	Ensure compliance with external requirements	P				P	S
P09	Assess risks	S	S	P	P	P	S
P10	Manage projects	P	P				
P11	Manage quality	P	P		P		S

Acquisition and implementation

AI1	Identify solutions	P	S				
AI2	Acquire and maintain application software	P	P		S		S
AI3	Acquire and maintain technology architecture	P	P		S		
AI4	Develop and maintain I&T procedures	P	P		S		S
AI5	Install and accredit systems	P			S	S	S
AI6	Manage changes	P	P		P	P	S

CobiT Process and Control Objectives

Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability
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Delivery and support

DS1	Define service levels	P	P	S	S	S	S	S
DS2	Manage third party service	P	P	S	S	S	S	S
DS3	Manage performance and capacity	P	P			S		
DS4	Ensure continuous service	P	S			P		
DS5	Ensure systems security			P	P	S	S	S
DS6	Identify and attribute costs		P					P
DS7	Educate and train users	P	S					
DS8	Assist and advise I&T customers	P						
DS9	Manage the configuration	P				S		S
DS10	Manage problems and incidents	P	P			S		
DS11	Manage data				P			P
DS12	Manage facilities				P	P		
DS13	Manage operations	P	P		S	S		

Monitoring

M1	Monitor the process	P	S	S	S	S	S	S
M2	Assess internal control adequacy	P	P	S	S	S	S	S
M3	Obtain independent assurance	P	P	S	S	S	S	S
M4	Provide for independent audit	P	P	S	S	S	S	S

Note to table

1 A blank cell indicates the objective does not address the information criteria.

Index

A

acquisition and implementation 12,
13, 15, 24, 42, 43, 72
Activity Based Costing (ABC) 13, 16,
18, 52, 53
Audit Committee 17, 61, 62, 64
audit opinion 21

B

balanced scorecard 13, 31-36
benchmarking 17, 32, 35, 59, 60
better practice 13, 17, 18, 31, 33, 35,
59, 60, 62, 63
Board of Management 36, 61
budgeting 13, 16, 37, 38, 52

C

Centrelink Audit 17, 62-64
CobiT 12, 23-25, 29, 30, 37-42, 45, 46,
49, 55, 62, 63, 69-73
control objectives 12, 23-25, 30, 42,
45, 46, 55, 61, 69, 71-73
costing 13, 16, 18, 53-55
costs 13, 15, 16, 18, 25, 38, 45, 46, 47,
51, 52, 53, 69, 73

D

Defence Signals Directorate 17, 63
delivery and support 12, 13, 16, 23,
25, 45-47, 49, 51, 53, 73
Deloitte Touche Tohmatsu 21
Department of Veterans's Affairs 21

F

financial statement 11, 12, 14, 21-23,
26, 28, 45, 50, 51, 64, 70, 71

H

Health Insurance Commission 21

I

I&T Governance 112, 23, 32, 38
I&T Governance Group 32
I&T Leadership Group (I&TLG) 32
income support 14, 27, 54

independent audit 17, 25, 55, 63, 64,
73
industry standards 13, 17, 35, 36, 59
information architecture 15, 24, 30,
37, 72
internal audit 14, 23, 25, 27, 30, 42,
45-47, 49, 55, 58, 60, 61, 63, 64
International Standards
Organisation (ISO) 17, 40, 63

M

monitoring 11-17, 21-23, 25, 27,
31-39, 47-50, 55, 56, 59-63, 64,
71, 73

N

Newstart 12-14, 16, 18, 22, 23, 27, 31,
37, 38, 41-43, 46-54, 57-61

P

Pension 12, 22, 23, 41, 75
performance measures 12-14, 17, 18,
33-36, 47, 56, 57, 59
performance targets 17, 57, 59
planning and organisation 12, 14,
23, 24, 29-31, 33, 35, 37, 39, 72

Q

quality 11, 12, 15, 17, 21, 22, 24, 29,
30, 33, 40, 44, 48, 55-57, 60, 62,
63, 69, 70, 72
quality and service delivery targets
11, 22

R

risk 14, 15, 26, 27, 29, 32, 37, 39, 40,
43, 51

S

security 14-17, 25-27, 31, 34, 37, 38,
43, 45-47, 49-51, 56, 59, 70, 73
Security Access Management System
(SAMS) 16, 50, 51
Strategic Plan 13, 14, 18, 32, 34-36,
38

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