

Summary of Results

2015 “CIPFA TICK” Survey – Evaluation of departments’ internal controls

October 2015

Executive Summary

The Secretary to the Treasury is required by law to attest that the systems of internal control utilised by Government reporting entities are operating effectively. To do this, significant reliance is placed on the Treasury’s assessments of departments’ internal controls when making this annual attestation.

This is the third year the “CIPFA TICK” survey evaluation process has been implemented to assess relevant entities’ internal controls.

The CIPFA TICK process involved a survey, sent to 576 staff, and completed by 480 staff from departments and Offices of Parliament, seeking their views and comments on internal controls in nine key areas, with each area represented by a statement.

Staff participating in the survey were asked to rate the applicability of nine statements made about the internal controls environment in their organisations. Each statement represented an area where research has shown internal controls often fail. Before scoring each statement, participants were also asked to answer some supporting questions (tailored to their type of role) to help them form a judgement. Participants were also able to provide explanatory comments for each statement.

The average score attained for each statement comfortably exceeded the minimum assurance threshold that had been established by the Treasury before the survey began. The latest results, therefore, supported the Secretary to the Treasury’s attestation that entities’ internal controls were operating adequately in 2014/15.

While the minimum thresholds set by Treasury were reached, a number of respondents noted there need to be more meaningful consequences for failure to meet financial management or internal control objectives.

Background

Under The Public Finance Act 1989 (s29) the Secretary to the Treasury is required to prepare the Financial Statements of the Government of New Zealand (FSG) for the Minister of Finance, attest to specific aspects of the statements and to provide a signed Statement of Responsibility stating that:

'The Treasury has specific responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance that the transactions recorded are within statutory authority and properly record the use of all public financial resources by the Government reporting entity'

To fulfil these obligations, the Treasury requires sufficient assurance about the operation of the financial management system across all Crown activities. Primarily this assurance is provided directly by those responsible for the internal controls, i.e. the chief executive of each entity concerned. However, an effective assurance regime requires a measure of independent assurance to also be provided.

For SOEs and Crown entities, governance boards exist that provide oversight of their Chief Executives. We rely on the Chairperson's sign-off on their Statements of Responsibility to provide us with independent assurance that an entity's controls are operating effectively.

For departments and Offices of Parliament, however, separate governance boards do not exist which is why an additional process is required to independently evaluate departments' internal control environments. This function is performed through the CIPFA TICK survey.

CIPFA TICK Survey

The survey is a product designed by the Treasury that draws on CIPFA's¹ web-based financial management model and on recent research conducted by IFAC² on good-practice internal control principles.

Staff participating in the survey were asked to rate the applicability of nine statements made about the internal controls environment in their organisations, on a scale of 0 to 4, with 0 representing "hardly" applicable and 4 "strongly" applicable.

Each statement represented an area where research has shown internal controls often fail. Before scoring each statement, participants were also asked to answer some supporting questions (tailored to their type of role) to help them form a judgement. Participants were also able to provide explanatory comments for each statement.

To ensure the self-assessed results were a fair reflection of the control environment, we:

- Asked departments to provide a pool of candidates for the survey, from which we randomly selected a sample
- Selected relatively large samples (ranging from four staff in the smallest departments to 27 in the largest)
- Captured a cross-section of perspectives by including in the sample for each department at least one budget holder, CFO, finance officer, internal auditor (where possible) and senior manager; and
- Afforded a level of confidentiality to survey participants where possible

These measures were taken to capture feedback from staff outside the key finance roles and to encourage free and frank feedback.

¹ Chartered Institute of Public Finance and Accountancy – a UK-based entity specialising in public finance and project management.

² International Federation of Accountants

In order to assess the survey results, minimum tolerance levels were allocated to each of the nine statements, based on the potential consequences of a control breakdown. Where those consequences were considered to be higher, a higher threshold was set (i.e. less tolerance afforded).

Survey Results

The results of the 2015 CIPFA TICK survey are summarised below. They indicate that the overall average scores attained by the departments meet the Treasury's minimum requirements – that the internal control environments across all government departments is sufficiently sound. Ahead of external audit results, the survey results provide a firm preliminary basis for the Secretary to the Treasury to give an assurance concerning the Statement of Responsibility for the 2014/15 financial year.

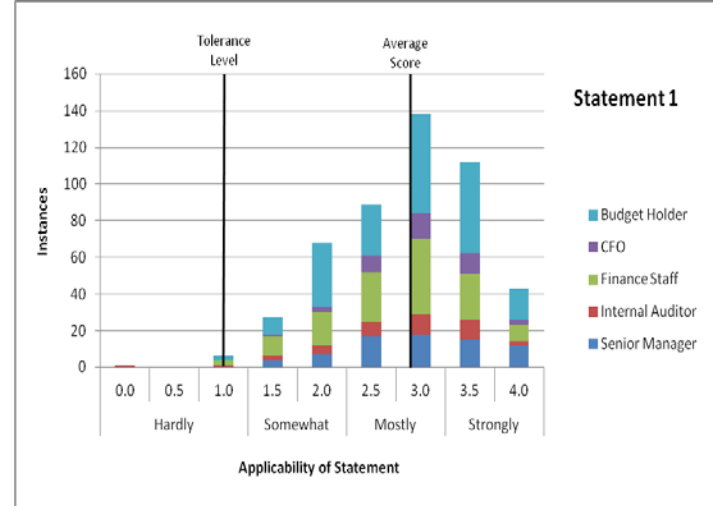
The table below shows the spread of the scores received and the general themes drawn from individual participants' comments for each statement. Please note that because the comments received tended to focus on potential areas of improvement, the themes may appear overly negative when compared to the results.

When looking at the graphs you may notice some scores are below the marked minimum tolerance levels. However, these are individuals' scores and our assessment of adequacy for each department was based on average scores, not the lowest extremes.

A more complete analysis is provided in the [Analysis of Responses CIPFA TICK Survey 2015](#) (PDF 338KB), providing both information on why the statement is important and the evidentiary support for the analysis against each statement.

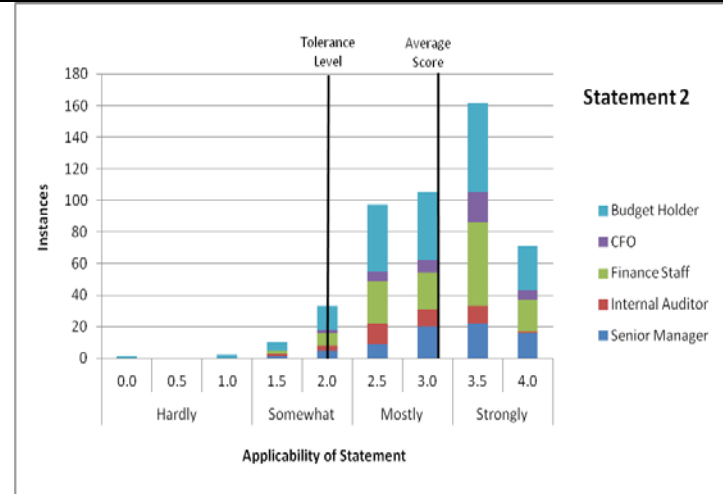
More details about the contents of the survey (with the supporting questions) are provided in Appendix One.

Statement 1. Internal control supports the department's objectives



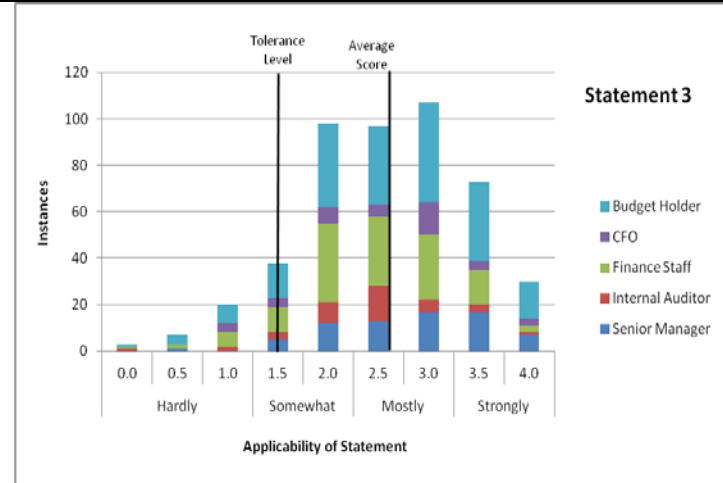
As reflected in the score, a number of respondents were able to comment positively on their risk management frameworks, and the linkages to the department's strategy. Some felt that risk management frameworks were rudimentary or needing development, while others thought that processes were reactive rather than aligned with strategy, and a few complained that this is an area that is not well communicated.

Statement 2. The department determines roles and responsibilities



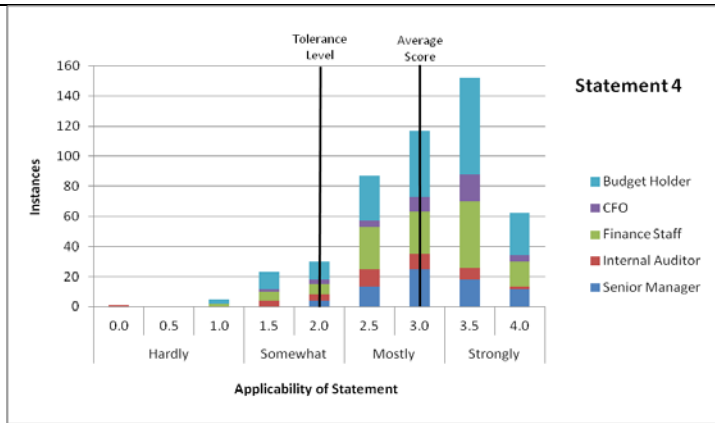
While respondents generally thought roles and responsibilities were clear, they were less willing to say that roles and responsibilities were well understood. Several comments were made on the impact of staff changes and turnover affecting their rating and a couple of comments pointed to tensions in the management of responsibilities.

Statement 3. The achievement of internal control objectives is linked to individuals' performance objectives



As a prompt in considering this statement, respondents were asked to consider whether managers were held accountable for performance and financial outcomes, with meaningful consequences for their appraisal. A significant number of comments focussed on the lack of meaningful consequences. While some respondents were able to provide comfort that accountability was enforced through performance assessment, others expressed a fair amount of doubt. Some respondents differentiated the effectiveness of accountability between aspects of financial management, for example, between control of overspends and value-for-money.

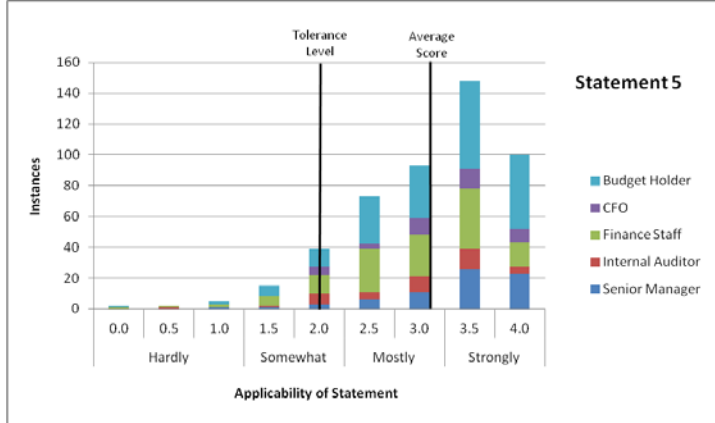
Statement 4. There is sufficient competency in fulfilling internal control responsibilities.



Statement 4

There was a fair amount of uncertainty expressed over respondents knowledge of competency levels, although many were comfortable assuming that there was sufficient competency or had observed that in practice.. The importance of on the job training was emphasised. A number of respondents observed that restructuring has a negative impact on competencies, and some concerns continue to be expressed that financial management competencies are under-resourced or undervalued.

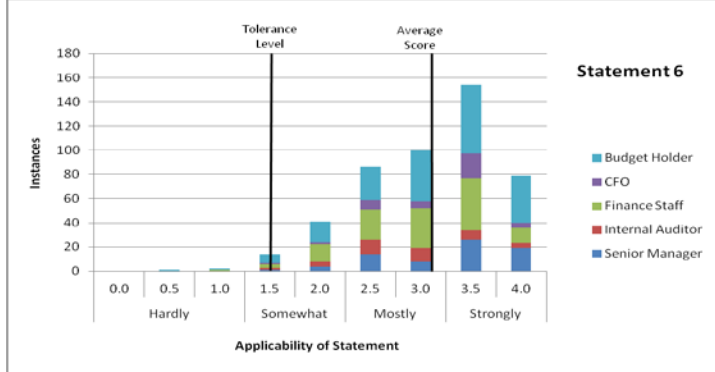
Statement 5. The "tone at the top" motivates staff to adhere to internal control policies.



Statement 5

A number of respondents reflected positively on the effort that Chief Executives and Senior Management Teams put in to set the right tone at the top. However respondents also provided reminders that every action taken by senior managers contributes to the tone that is set, and that inconsistencies between managers, and between practices are keenly observed. Also, setting the tone at the top requires high visibility and effort in communication to be maintained.

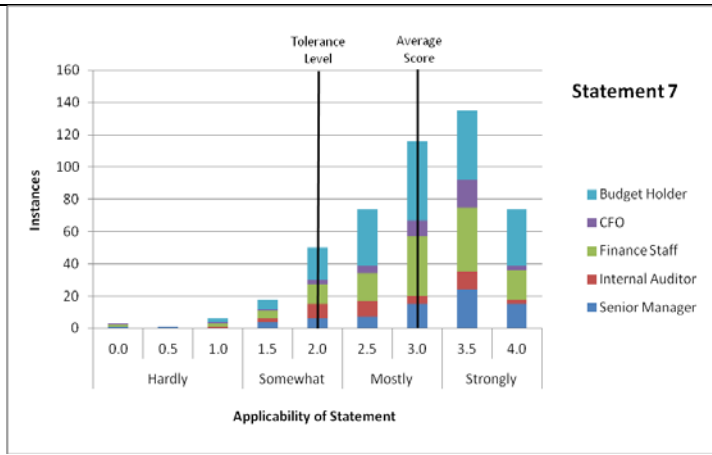
Statement 6. Internal controls respond to risks.



Statement 6

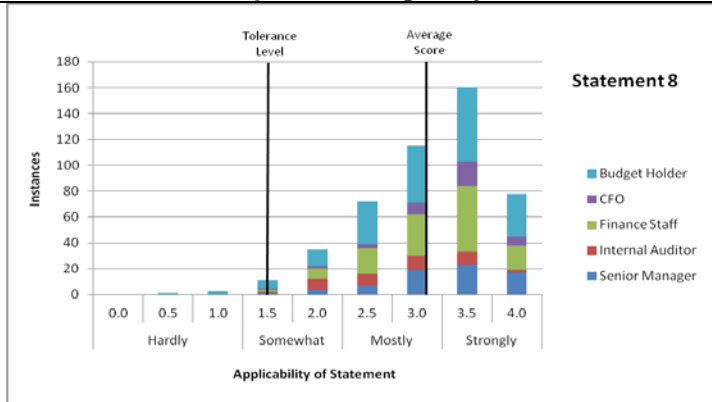
Respondents were generally able to provide a large measure of assurance that internal control procedures are regularly reviewed and updated. Some highlighted the importance of communication and awareness of changes, and in a few cases resource problems were noted. A couple of comments conversely suggested that resources could better be directed elsewhere.

Statement 7. Regular communication regarding the internal control system takes place.



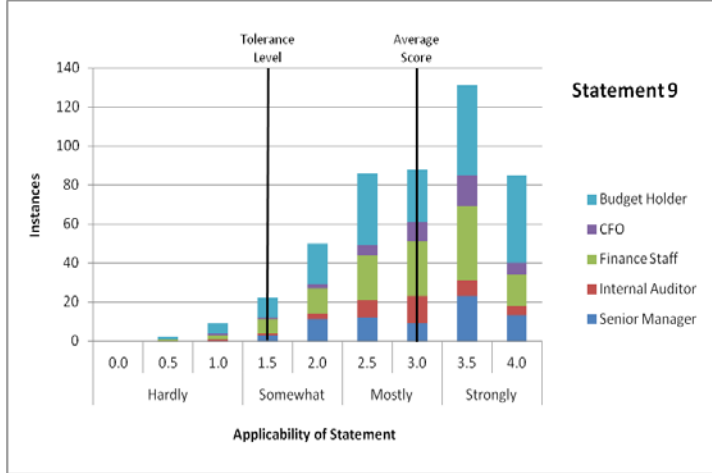
A fair amount of confidence was expressed in current procedures. The reservations that were expressed mainly focused on the need for constant refreshment and education to maintain current levels.

Statement 8. The department regularly monitors and evaluates controls.



Most comments from respondents pointed to instances of good practice in monitoring and evaluating controls. There were however a few grumbles about either about the resources available for this work, or conversely the attention paid to it.

Statement 9. The department is accountable and transparent.



The prompts for considering this statement included questions on the effectiveness of audit committees, and on openness to and resolution of public complaints.

Smaller departments tend not to have an audit committee. Where they exist, audit and risk committees appear to have a relatively low profile in departments.

A number of departments noted a lack of public interface as a reason for limited interaction with the public. Those that do have a public interface could generally point to website feedback and complaints

Appendix One - 2015 CIPFA TICK Survey – Statements and Supporting Questions

The following table shows the statements and supporting questions that comprised the 2014 CIPFA TICK survey.

Contributors were classified into five different role categories. While each category scored the applicability of the same nine statements, the set of supporting questions posed by the survey differed for each category, based on the generic scope of the different roles. The “X”s indicate which questions were asked of each contributor category.

| Statements and Supporting Questions | | Contributor Categories | | | | |
|-------------------------------------|--|------------------------|-----|---------------|------------------|----------------|
| | | Budget Holders | CFO | Finance Staff | Internal Auditor | Senior Manager |
| 1 | Internal control supports the Ministry’s/Department’s objectives. | | | | | |
| 1.1 | Does the Ministry’s/Department’s planning show how resources are allocated strategically to deliver the Ministry’s/Department’s aims, objectives and priorities? | X | X | X | | X |
| 1.2 | Is there an up-to-date risk management strategy and policy, providing a consistent framework for the Ministry/Department including risk appetite and methodologies for assessing risk? | X | X | | X | X |
| 1.3 | Do risk management arrangements include formal identification, recording, and assessment of risks? | X | X | | X | X |
| 1.4 | Do the risk registers link risks to Ministry/Departmental objectives? | X | X | | X | X |
| 1.5 | Do risk management arrangements include monitoring the development of risks and the effectiveness of management actions through indicators and early warning signs? | X | | X | X | X |
| 1.6 | Are internal controls targeted to eliminate preventable risks cost-effectively? | X | X | X | X | |
| 2 | The Ministry/Department determines roles and responsibilities. | | | | | |
| 2.1 | Does the Ministry/Department have structured arrangements in place to obtain the assurance needed to enable the Statement of Responsibility covering internal controls to be signed? | | X | X | X | |
| 2.2 | Do risk management arrangements include properly resourced action plans with named, responsible individuals to mitigate and manage risks? | X | X | | X | X |
| 2.3 | Are the roles and responsibilities of finance staff clearly defined and is this evidenced by a high level of awareness among Managers about who to contact and when? | X | X | X | X | X |
| 2.4 | Are delegated authorities and responsibilities clear? | X | X | X | X | X |
| 3 | The achievement of internal control objectives is linked to individuals’ performance objectives. | | | | | |
| 3.1 | Does the Ministry’s/Department’s appraisal scheme include financial management | X | X | X | X | X |

| Statements and Supporting Questions | | Contributor Categories | | | | |
|-------------------------------------|--|------------------------|-----|---------------|------------------|----------------|
| | | Budget Holders | CFO | Finance Staff | Internal Auditor | Senior Manager |
| | competencies where these are required? | | | | | |
| 3.2 | Are Managers at all levels held accountable for performance and financial outcomes, with meaningful consequences for their appraisal? | X | X | X | X | X |
| 3.3 | Are Managers at all levels held accountable for the value-for-money implications of their decisions, with meaningful consequences for their appraisal? | X | X | X | X | X |
| 4 | There is sufficient competency in fulfilling internal control responsibilities. | | | | | |
| 4.1 | Is there a financial management competency framework that identifies competencies needed at different levels of responsibility throughout the Ministry/Department? | | X | X | | X |
| 4.2 | Are posts that include responsibility for budgets and spending required to have specified financial management competencies? | X | X | X | X | X |
| 4.3 | Do posts that require recognised professional skills, knowledge and competencies have job descriptions and person specifications that reflect these requirements? | X | X | X | X | X |
| 4.4 | Are senior finance positions filled by suitably competent and experienced staff? | X | X | X | | X |
| 4.5 | Is the Finance function performance managed through defined standards that are regularly reported and monitored? | | X | X | X | |
| 4.6 | Are senior management members and staff aware of relevant codes of conduct and is compliance high? | X | X | | X | X |
| 4.7 | Do external auditors and inspectors comment favourably on the capacity of the finance function? | | X | X | X | |
| 5 | The "tone at the top" motivates staff to adhere to internal control policies | | | | | |
| 5.1 | Do senior management team members as individuals show leadership by example in their own personal conduct? | X | X | X | X | X |
| 5.2 | Does senior management set the tone that finance matters? | X | X | X | X | X |
| 5.3 | Do senior Managers demonstrate an understanding of the financial management rules by actually applying them? | X | X | X | X | X |
| 5.4 | Is the senior management team involved in determining key risks and responses? | X | X | X | X | X |
| 6 | Internal controls respond to risks. | | | | | |
| 6.1 | Does the Ministry/Department regularly review its internal control procedures and update them where necessary? | X | X | X | X | |
| 6.2 | Are there arrangements to escalate risks to the Senior Management Team if the scale would have a corporate impact? | X | X | X | X | X |
| 6.3 | Does the Leadership Team take prompt action to remedy any breakdowns in internal control procedures? | | X | | X | X |
| 6.4 | Does the Ministry/Department have up-to-date procedures to prevent, detect, and | X | X | X | X | X |

| Statements and Supporting Questions | | Contributor Categories | | | | |
|-------------------------------------|--|------------------------|-----|---------------|------------------|----------------|
| | | Budget Holders | CFO | Finance Staff | Internal Auditor | Senior Manager |
| | investigate misconduct, fraud and corruption? | | | | | |
| 7 | Regular communication regarding the internal control system takes place. | | | | | |
| 7.1 | Are all staff involved in financial processes (e.g. invoice processing or year-end accounts) aware of their role and impact, whether Finance staff or not? | X | X | X | X | X |
| 7.2 | Does the Ministry/Department monitor and act to ensure staff comply with its policies and procedures? | X | X | X | X | X |
| 7.3 | Does the Ministry/Department regularly review the effectiveness of counter fraud and corruption arrangements? | | X | | X | |
| 7.4 | Do staff know what to do if they suspect misconduct, fraud or corruption? | X | X | X | X | X |
| 8 | The Ministry/Department regularly monitors and evaluates controls. | | | | | |
| 8.1 | Does the Ministry/Department monitor and act to ensure compliance with relevant laws (e.g. Public Finance Act) and regulations (e.g. Treasury Instructions), and that expenditure is lawful? | X | X | X | X | X |
| 8.2 | Does the Ministry/Department monitor and act to ensure compliance with its documented internal control procedures? | X | X | X | X | X |
| 8.3 | Is the Senior Management Team given a consolidated view of the Ministry's/Department's finances and risks, including from Crown entities monitored and important delivery partners? | | X | | X | X |
| 8.4 | Does the Senior Management Team regularly review the effectiveness of the Ministry's/Department's risk management arrangements, including assurance from internal audit? | | | | X | X |
| 8.5 | Does the Ministry/Department monitor and act to ensure that its financial policies or standing financial instructions (including procurement) are applied appropriately? | X | X | X | X | X |
| 9 | The Ministry/Department is accountable and transparent. | | | | | |
| 9.1 | Does the Ministry/Department have an effective Audit Committee? | | X | X | X | X |
| 9.2 | Was the annual audit letter free of weaknesses identified in the operation of internal controls? | | X | X | X | |
| 9.3 | Does the Ministry/Department publish a Statement of Responsibility covering Internal Controls, including internal financial control and risk management, signed by the Chief Executive? | | X | | X | |
| 9.4 | Does the Ministry/Department publicise how the public can register concerns or complaints? | X | X | | X | X |