

Financial Management – Departmental Internal Control Evaluation Criteria

Prepared by the Treasury

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THE TREASURY
Kaitohutohu Kaupapa Rawa

New Zealand Government

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Introduction

Background

The Secretary to Treasury is required to prepare the Financial Statements of Government (FSG) for the Minister of Finance and to attest to specific aspects of the Statements (s29(1) Public Finance Act 1989). In order to fulfil this function Treasury requires sufficient assurance about the operation of the financial management system to have confidence that the figures being reported in the financial statements of the Government are meaningful in describing the financial dimension of the Government's activities.

In signing the FSG, a greater level of assurance is required than is available from reliance on the statements of responsibility prepared in relation to audited departmental financial statements. A number of performance and reporting risks exist beyond the matters addressed through external auditing, which are significant to the value of Crown reporting.

Treasury has the specific responsibility to seek the additional assurance it requires to support its function in relation to the FSG.

The statement of responsibility (for the Financial Statements of Government) shall comprise –

- (b) a statement of the Treasury's 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.*

(s29(2)(b) Public Finance Act 1989)

Since 1989 Treasury has operated an assurance function, initially through the direct employment of a financial management assurance team, and from 1995 to 2002, by commissioning periodic financial management reviews of individual elements of the financial management system in government departments. Since 2002 this assurance function has operated by obtaining independent assessments of internal controls from departmental audit service providers against internal control elements and criteria in a process called Departmental Internal Control Evaluation (DICE).

The elements and control criteria used in DICE reflect the broad actions departments are expected to take to provide the Chief Executive with sufficient confidence to sign, and the Chief Financial Officer to countersign, the statement of responsibility in annual departmental financial statements.

The statement of responsibility must include –

- (a) a statement of the responsibility of the department's chief executive for the preparation of the financial statements and statement of service performance and for the judgments made in them; and*
- (b) a statement of the responsibility of the department's chief executive for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and*
- (c) a statement that, in the opinion of the department's chief executive, the financial statements and statement of service performance fairly reflect the financial position and operations of the department for the reporting period.*

(s45C Public Finance Act 1989)

The Elements and Control Criteria

The elements and control criteria have been identified to provide a framework for evaluating the adequacy of the operation of departmental internal control systems. They form the basis on which assessment of the adequacy of internal controls can be made. The criteria summarise generally applicable good practice within which departments develop their individualised financial management systems and processes tailored to fit their specific business and operational environment, needs and priorities.

The elements of the financial management system are presented from a departmental perspective with specific links made to the quality of the data provided by departments for incorporation in the Estimates, Economic and Fiscal Updates and the Financial Statements of Government. The elements are grouped to reflect the primary link with the aggregate reports.

The focus of the elements and control criteria is the processes and systems that are employed by departments to support the quality of departmental information and the efficiency and probity of departmental decision-making. As such, the elements and control criteria are under the full or reasonable control of departments. The elements and control criteria assume that departments are applying the concepts, definitions and reporting standards required by GAAP and additional statutory and administrative requirements under government policy, and are actively managing the legislative compliance costs associated with both general departmental operations and financial reporting.

The elements and criteria do not provide a basis for assessing the quality of departmental decisions or the effectiveness of departmental actions or government policy. These matters go beyond the objectives of this assurance process.

Scope Statements and Control Criteria

Planning and Budgeting – ex ante

1 Aggregate Planning and Budgeting Information

Scope

This element covers a department's obligations to provide budget information relating to departmental revenue, expenditure, assets and liabilities to the Treasury. This information is used to support the Treasury's preparation of the annual and supplementary Estimates of Expenditure and economic and fiscal updates.

This element excludes departmental planning and budgeting, departmental planning and budgeting responsibilities relating to non-departmental expenditure and revenue and ex post departmental and aggregate performance reporting. These areas are covered as separate elements in this model (refer elements 2, 3, 23, 25, and 26).

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include:

- } that the aggregate planning and budget documents are not prepared on a consistent basis; and
- } that (ex ante) reporting does not meaningfully reflect the significant planned departmental activities of the Crown.

Implications

This element has implications for the Estimates of Appropriations, Information Supporting the Estimates, and the Budget Economic and Fiscal Updates (Forecast Financial Statements).

Control Criteria

The control criteria are designed to provide assurance that information provided by departments is accurate, complete and free from material misstatements.

Control Criteria	
	Submissions
1	<p>Departmental planning and budgeting submissions for inclusion in aggregate reports are consistent with legislative obligations, government policies and strategies and the Minister's purchase decisions.</p> <ul style="list-style-type: none">} <i>Departmental planning and budgeting processes are defined including a timetable, assignment of responsibilities, dependencies, business and policy assumptions, and required formats and structures for the presentation of information to meet external administrative requirements and facilitate internal comparison and consolidation.</i>} <i>Individual budget bids are policy proposals prepared as part of the Budget round.</i>} <i>The preparation of departmental Budget and forecast submissions is based on a combination of historical information, current government strategies, priorities and policy decisions and departmental operational priorities.</i>

Control Criteria	
	<p>} <i>The establishment of performance targets focuses on the development, co-ordination and review of financial plans and output delivery programmes at the output class level and the impact of those outputs.</i></p>
2	<p>Output class specification</p> <p>The technical nature and structure of output classes for each Vote administered by the department are consistent with legislative obligations, government policies and strategies, and the Minister's purchase decisions and priorities.</p> <p>} <i>Review procedures are in place to provide assurance as to the technical quality of departmental output class specifications (structure, description and performance dimensions) and the consistency of specifications with government policy and Ministers' purchase decisions.</i></p>
3	<p>Baseline amendments</p> <p>Amendments to baselines in aggregate plans and budgets sought during the year are justified explicitly and correctly documented in the Supplementary Estimates and updates of forecast financial statements.</p> <p>} <i>Management procedures are in place to address output delivery and ownership performance variances against projections for the current year, at a department-wide level.</i></p> <p>} <i>Baseline updates reflect decisions made on policy proposals prepared during the year.</i></p> <p>} <i>Procedures exist to identify expenditure approaching appropriations and working capital requirements during the year, including identifying the causes, and providing early warning to Ministers and options for addressing the expenditure risks, such as making operational changes and proposing baseline amendments.</i></p>

2 Output Performance – Planning and Budgeting

Scope

This element covers preparation of departmental purchase / output agreements and output-based planning and budget documents, below the appropriation level, and maintenance of the integrity of these documents during the year. The output performance covered includes outputs supplied to both the Crown and third parties.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include exceeding financial appropriation limits, and under or over performance in supplying outputs relative to the performance dimensions established in output agreements.

Implications

This element has implications for the Estimates of Appropriations and the Information Supporting the Estimates.

Control Criteria

The control criteria are designed to provide assurance that output performance is consistent with the Minister's decisions and the specification of departmental output performance undertakings.

Control Criteria	
1	<p>SOI and output plans</p> <p>A current purchase / output agreement is in place for each Vote administered by the department, which is consistent with and generally provides more information than the Estimates.</p> <p>} <i>Preparation of the purchase / output agreement commences alongside preparation of the department's Budget submission and relies on discussions with Ministers, as well as internal discussions.</i></p> <p>} <i>The agreement is generally signed close to the tabling of the Budget. The output structure is consistent with the output class structure in the Estimates and the agreement is achievable within current resources.</i></p>
2	<p>Output specification</p> <p>The structure and content of the purchase / output agreement are consistent with the departments and chief executive's statutory duties and responsibilities, government policy and strategy, the Minister's purchase decisions and priorities, and administrative requirements.</p> <p>} <i>Procedures are in place to provide assurance that specifications are consistent with government policy and Ministers' purchase decisions.</i></p> <p>} <i>Output specifications in the agreement (the output structure, descriptions and performance measures and targets) are meaningful for guiding expected output delivery performance.</i></p>

Control Criteria	
3	<p>Purchase/ output agreement variations</p> <p>The integrity of the purchase / output agreement is maintained throughout the year with the necessary approval for amendments and variations sought.</p> <ul style="list-style-type: none"> } <i>Departments seek formal amendments and variations to the agreement to reflect changes during the year in government policy, Ministers' priorities and departmental operational matters.</i> } <i>The final agreement and its amendments and variations are signed and dated.</i>
4	<p>Output-based management</p> <p>Departments use the purchase / output agreement and subordinate departmental plans and budgets, including the results of performance measurement against those plans and budgets, to manage their output delivery performance.</p> <ul style="list-style-type: none"> } <i>Management promotes the purchase / output agreement as a key accountability and planning document for guiding the efficiency of departmental operations and overall departmental performance.</i> } <i>Copies of the agreement are readily available to managers and staff.</i> } <i>The agreement is set at a level of dis-aggregation suitable to the size and nature of the department and the nature and complexity of the outputs to be supplied.</i> } <i>Processes are in place to identify external and internal risks to output delivery performance, and ways of addressing or managing those risks.</i> } <i>Links are maintained between the purchase / output agreement and internal and external accountability mechanisms, such as performance management mechanisms and the Estimates.</i>

3 Ownership Performance – Planning and Budgeting

Scope

This element covers preparation of departmental forecast reports, statements of intent and other ownership planning and budget documents. This includes the specific departmental ownership matters contained in chief executives' performance agreements and business cases to support capital contributions. The ownership performance covered includes use of both existing taxpayer funds and current year capital injections.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include inefficient use of resources and waste, inability to meet financial obligations within current taxpayer fund levels and inadequate or surplus capability relative to output delivery obligations.

Implications

This element has implications for the Estimates of Appropriations and the Information Supporting the Estimates.

Control Criteria

The control criteria are designed to provide assurance that departmental ownership performance and resource utilisation are consistent with specified undertakings.

Control Criteria	
1	<p>Ex ante ownership performance accountability documents</p> <p>Ex ante ownership performance accountability documents are in place, through combinations of departmental forecast reports, statements of intent and other strategic planning and budgeting mechanisms, the ownership elements of chief executives' performance agreements and subordinate departmental plans and budgets.</p> <ul style="list-style-type: none">} <i>Ownership performance planning and budgeting is based on both organisational structure and specific ownership performance areas.</i>} <i>Ex ante ownership performance accountability mechanisms include general strategic planning documents and specific plans and budgets addressing risk management, strategic human resource management, information technology development.</i>} <i>Ownership performance planning and budgeting occurs for both the department overall and at the level of organisational units.</i>

Control Criteria	
2	<p>Ownership performance planning and budgeting</p> <p>The focus and content of departmental ex ante ownership performance accountability documents are consistent with statutory duties, government policy and strategy, the Responsible Minister's priorities and administrative requirements, and reflect the department's resource levels, operational capability and objectives.</p> <ul style="list-style-type: none"> <i>} Procedures are in place to provide assurance that ownership performance plans and budgets reflect the Minister's strategic direction for the department, the department's and chief executive's legislative obligations and departmental capability.</i> <i>} Procedures also provide assurance as to the reasonableness of financial and non-financial ownership performance targets.</i> <i>} The documents identify and quantify ownership performance and capability risks, and set out strategies to address those risks and achieve ownership performance targets over at least three years.</i> <i>} The documents provide an explicit record of the assumptions upon which the plans and budgets rely.</i>
3	<p>Capability and risk management</p> <p>Departments use their ex ante ownership performance accountability documents, including the results of performance measurement against those plans and budgets, to guide their capability and risk management performance.</p> <ul style="list-style-type: none"> <i>} Management promotes the ownership performance plans and budgets as some of the key accountability and planning documents for guiding the efficiency of departmental operations and overall performance.</i> <i>} Links are maintained between the documents and internal and accountability mechanisms such as performance management mechanisms and forecast financial statements.</i> <i>} Departments use ownership performance accountability documents as the basis for maintaining sufficient capability to continue to meet their output delivery obligations.</i>
4	<p>Capital charge management</p> <p>The level of capital charge paid is commensurate with the activities of the department.</p> <ul style="list-style-type: none"> <i>} Departments have a focus on minimising the capital charge amount, by continually assessing the drivers of their cost of capital and the mix of underlying assets and liabilities, and the contribution of those assets and liabilities to departmental performance and efficiency.</i> <i>} Surplus capital is eliminated through capital withdrawals.</i>
5	<p>Business cases</p> <p>Business cases are prepared to support requests for capital injections and expenditure plans that require Ministerial or other external approval.</p> <ul style="list-style-type: none"> <i>} Processes are in place to provide assurance that business cases and other supporting documentation accompanying requests for additional capital present reliable assessments of current capability relative to short to medium-term output delivery obligations.</i>

Statement of Financial Performance

4 Third Party Revenue

Scope

This element covers the collection of revenue by departments for goods and services supplied to other departments, the public and other organisations and the exercise of departmental discretion for setting charges.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include charges that are invalid, incorrectly subsidised, inaccurately costed or recovered, excessively priced and uncollected.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (revenue), in particular, and the Statement of Financial Position (assets) as well as for the Estimates of Appropriations.

Control Criteria

The control criteria are designed to provide assurance that third party revenue is legitimate and justifiable, accurately costed and collected.

Control Criteria	
1	<p>Strategy</p> <p>A third party revenue strategy, with associated policies and procedures, is in place and is consistent with regulatory and administrative requirements.</p> <ul style="list-style-type: none">} <i>The authority for setting charges (legislative, government policy or departmental discretion) is identified and the basis for charges to be made is clear.</i>} <i>Assessment of opportunities for charging for goods and services is undertaken on a cost / benefit basis.</i>} <i>Policies include specific and indicative charges (rates / prices) based on analyses of the nature of the goods and services and the costs associated with providing the (comprising a mix of variable, fixed and common costs.) outputs.</i>} <i>Charging options are assessed, taking into account departmental operational objectives and regulatory requirements, including determining guidelines for providing credit terms to third parties.</i>
2	<p>Memorandum accounting</p> <p>Memorandum accounting is used where agreed by Ministers.</p> <ul style="list-style-type: none">} <i>Adherence to departmental policies and procedures provides assurance that third party revenue is recorded on a consistent basis with accumulated surpluses and losses recorded in memorandum accounts for respective outputs.</i>

Control Criteria	
3	<p>Charging and revenue collection</p> <p>Charging and revenue collection are valid, complete, accurate and timely relative to the provision of the respective goods and services.</p> <ul style="list-style-type: none"> } <i>Reconciliation procedures and review for reasonableness occur on a timely basis.</i> } <i>Arrears management procedures are timely in order to minimise bad debt risk and to identify and assess provisioning requirements at the earliest opportunity.</i> } <i>Records provide sufficient detail as to identity of the debtor, nature, amount, outstanding period and status of recovery actions.</i>
4	<p>Review of charging regimes</p> <p>Charging regimes established under departmental discretion are reviewed regularly.</p> <ul style="list-style-type: none"> } <i>Procedures are in place to provide assurance that charges set are not excessive in relation to the costs of the goods and services provided.</i> } <i>Decisions relating to instituting a charging regime in respect of different categories of goods and services are reviewed regularly.</i> } <i>Departmental pricing strategies and associated costing policies and models are regularly reviewed to provide assurance that charges reflect the value of goods and services supplied and costs incurred, and to minimise the risk of cost cross-subsidisation.</i>

5 Payroll Systems

Scope

This element covers payroll processing, encompassing employee remuneration and performance related payments, benefits, leave entitlements and deductions under employment and performance agreements.

The element excludes reimbursement of expenses, which is addressed as a separate element in this model (refer element 6).

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include under and overpayment, non-payment and fictitious payments.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (expenses), in particular, and the Statement of Financial Position (liabilities).

Control Criteria

The control criteria are designed to provide assurance that payroll and payment processing is complete, valid, accurate, and timely.

Control Criteria	
1	<p>Policies and procedures</p> <p>Payroll processing and payment policies and guidelines are consistent with the department's wider human resource management and personnel policies.</p> <ul style="list-style-type: none">} <i>Personnel and remuneration policies, including performance management policies, establish the basis for payroll transactions in terms of the nature, amount, timing and frequency of payments and deductions made.</i>} <i>Payroll processing and payment procedures and guidelines, which are updated to reflect changes to human resource management and personnel policies, provide assurance that employees are correctly paid.</i>
2	<p>Routine payments</p> <p>Processing of routine payments is valid, complete, accurate and timely.</p> <ul style="list-style-type: none">} <i>Segregation of duties in respect of transaction initiation, payment, accounting and monitoring is normally enforced electronically by the system and changes to access rights or access use is reviewed and independently approved.</i>} <i>Vetting, exception based reporting, monitoring, reconciliation and matching based procedures are used to mitigate the potential for error and fraud.</i>} <i>Periodic review of established payments, including deductions, occurs to provide assurance as to the continued validity, completeness, accuracy and timeliness of payments, including that payments are made to the correct employee's bank account.</i>

Control Criteria	
3	<p>Leave provisioning</p> <p>Leave provisioning is accurate.</p> <ul style="list-style-type: none"> } <i>Leave records are updated regularly and periodically confirmed with employees.</i> } <i>Annual provisioning processes take account of the department's employee leave obligations, with assessments made of the probability that leave will be taken and the likely timing.</i> } <i>Leave types include annual, long service and retiring leave.</i>
4	<p>Non-standard processes</p> <p>Non-standard payroll processes are valid, complete, accurate and timely, with independent checking and approval.</p> <ul style="list-style-type: none"> } <i>Changes to payroll standing files (including new and departing employees) require close and independent scrutiny, to confirm that changes are made with authoritative supporting documentation and are approved by authorised individuals.</i> } <i>Non-standard processes, including initial and final payments, changes in remuneration and redundancy payments, are relatively more susceptible to error, and therefore require closer scrutiny than routine payments.</i> } <i>Reports identify additions, deletions and exceptions or deviations against established financial parameters and these transactions are subject to independent review, with timely remedial action.</i>
5	<p>Performance related payments</p> <p>Performance related payments are made against predetermined and documented agreements.</p> <ul style="list-style-type: none"> } <i>Performance related payments accord with established predetermined and documented arrangements including being approved by authorised managers.</i> } <i>Evidence of actual performance is recorded to support performance related payments made.</i>

6 Expenditure with Elements of Personal Benefit

Scope

This element covers the initiation and approval of expenditure that is incurred at the discretion of management and may involve or be seen to involve an element of personal benefit.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include imprudent, improper or excessive spending, leading to potential waste and embarrassment.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (expenses), in particular, and the Statement of Financial Position (liabilities).

Control Criteria

The control criteria are designed to provide assurance that expenditure is legitimate or valid, independently authorised and accurately recorded.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and guidelines that support the exercise of judgement in incurring discretionary expenditure are developed and communicated.</p> <ul style="list-style-type: none"><i>The categories of discretionary expenditure are identified, along with the processes or mechanisms for incurring such expenditure, with policies and guidelines covering the initiation and approval of individual transactions.</i><i>The policies and guidelines are communicated to staff, have explicit endorsement from and are modelled by the chief executive and senior management members.</i>
2	<p>Transactions</p> <p>Expenditure with an element of personal benefit, including reimbursements, is authorised independently, including that to be incurred by the chief executive and site managers.</p> <ul style="list-style-type: none"><i>The sensitivity of such expenditure requires close scrutiny and independent approval to avoid the risk of any actual or perceived impropriety.</i><i>Expenditure incurred is checked and authorised against supporting documentary evidence, which is retained.</i><i>Periodic audit of expenditure transactions provides assurance that such expenditure is properly incurred and authorised.</i>
3	<p>Categories of expenditure</p> <p>Categories of expenditure with an element of personal benefit are monitored and managed to reflect the operational context of the department.</p> <ul style="list-style-type: none"><i>Monitoring of expenditure levels in categories such as overseas travel, entertainment and conference attendance, occurs to provide assurance that such expenditure reflects the consistent application of the department's policies and the operational context and needs of the department.</i><i>Variations from reasonable expectations of expenditure trends and patterns are investigated and resolved.</i>

7 Tax Obligations

Scope

This element covers the department's management of its liability for and payment of taxes levied under sovereign power.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include untimely payments and tax obligations not being met, leading to potential financial penalties.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (expenses), in particular, and the Statement of Financial Position (liabilities).

Control Criteria

The control criteria are designed to provide assurance that departmental tax obligations are correctly identified, accurately assessed and paid on a timely basis.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and procedures exist and are followed, to support the department's application of tax legislation.</p> <ul style="list-style-type: none">} <i>Policies and procedures establish the framework for the identification of tax obligations and the systematic determination of liabilities due.</i>} <i>Information and the systems required for complying with such tax obligations, including GST, FBT, PAYE and withholding taxes are identified and are in place</i>} <i>Responsibilities for preparing and making tax payments are assigned.</i>
2	<p>Routine tax returns and payments</p> <p>Preparation and filing of tax returns and the making of tax payments are timely, complete and accurate, to avoid penalties.</p> <ul style="list-style-type: none">} <i>Exception based reporting, monitoring, reconciliation and matching based procedures are used to mitigate the potential for error and fraud.</i>} <i>Independent review and signoff of returns provide assurance as to the accuracy of tax calculations and return completion.</i>} <i>Where refunds are due, procedures are in place to check that amounts due are received and that outstanding refunds are addressed on a timely basis.</i>
3	<p>External assessments</p> <p>External assessments received are reconciled to departmental records held and resulting corrective payments are made on a timely basis.</p> <ul style="list-style-type: none">} <i>Reconciliation activities to review external assessments focus on the accuracy and security of the employee records, financial information and other tax relevant information held by the department.</i>} <i>Variances between returns and external assessments received are investigated and resolved.</i>} <i>Any additional payments required are made and outstanding refunds pursued on a timely basis.</i>

Control Criteria	
4	<p>External tax investigations</p> <p>Departments respond constructively to external investigations of its tax obligations.</p> <p>} <i>Procedures are established to provide assurance that the department responds in a co-operative and constructive manner to investigations undertaken, with liaison responsibility assigned to a senior manager.</i></p> <p>} <i>Additional payments assessed due are paid on a timely basis to avoid penalties and charges.</i></p>

8 Operating Expenses

Scope

This element covers the management of operating expenses incurred as part of meeting a department's output delivery and ownership management performance responsibilities, from determining the expenditure need through to payment and accounting.

The element excludes payroll, expenditure with elements of personal benefit and tax obligations, which are addressed as separate elements in this model (refer elements 5, 6 and 7).

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include purchasing not satisfying the needs of the department within the required time at least cost, paying for performance not received, and uncontrolled, excessive or escalating costs leading to inefficient use of resources or waste.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (expenses), in particular, and the Statement of Financial Position (liabilities).

Control Criteria

The control criteria are designed to provide assurance that the goods and services purchased meet predetermined specified needs, are obtained through the most advantageous buying methods and are correctly accounted for.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and guidelines exist to guide the management of operating expenses and recognise the need to buy economically while meeting departmental operational needs.</p> <ul style="list-style-type: none">} <i>Policies and guidelines provide the framework for structured management of the purchasing, leasing and out-sourcing processes and associated decision-making.</i>} <i>The focus of the policies includes addressing linkages to departmental needs and constraints, managing efficiency and waste risks, approval processes, probity considerations (such as arrangements for repeat purchases) and value for money.</i>} <i>Approval processes cover one-off expenditure decisions, the use of competitive tendering, preferred contracting methods and use of established supplier arrangements, with a focus on maximising buying power.</i>
2	<p>Specification of user needs</p> <p>User needs are specified before determining the nature of purchases and possible sources of supply.</p> <ul style="list-style-type: none">} <i>Purchasing procedures follow a systematic process that stems from identification and specification of requirements and financial constraints to meet departmental operational needs.</i>

Control Criteria	
3	<p>Contracting out decisions</p> <p>Services identified for contracting out are profiled and assessed, and preferred contracting methods determined.</p> <ul style="list-style-type: none"> <i>} There is a strategy for contracting out to achieve significant benefits over in-house arrangements and regular assessments of contracting out options is undertaken in relation to functions, activities and specific projects currently undertaken in-house and by third parties.</i> <i>} A business case exists in support of decisions to begin or terminate contracting out arrangements, based on an analysis of costs and benefits.</i> <i>} A framework is in place for documenting the nature and extent of those services and performance standards, providing the basis for benchmarking current service delivery against internal expectations and external service suppliers.</i>
4	<p>Supplier management</p> <p>Supplier management processes focus on obtaining best performance in the supply of goods and services for lowest cost.</p> <ul style="list-style-type: none"> <i>} Objective processes are used to determine selection methods and identify the preferred supplier based on the nature and value of each contract and an assessment of the suppliers' delivery reputation, quality of service performance and price against predetermined criteria and weightings.</i> <i>} Negotiation is undertaken to obtain the best value, with advantageous payment terms and conditions secured.</i> <i>} The service specification in each contract details the scope and the desired performance levels of the goods and services being purchased.</i> <i>} Contract and supplier performance assessment and monitoring provides assurance as to the integrity and quality of goods and services supplied to enable timely intervention to achieve contract performance.</i> <i>} Supplier price adjustments trigger review procedures to assess value for money and confirm acceptance.</i> <i>} Contracts provide options for recourse in the event of non-performance.</i>
5	<p>Payment processes</p> <p>Payments made reflect goods and services received and the conditions of supply contracts.</p> <ul style="list-style-type: none"> <i>} Procedures are in place to verify that the goods and services received actually meet the purchase specifications and confirm the accuracy of invoice details, and to process authorised payments in a timely manner, relative to payment terms secured.</i>

9 Foreign Exchange Rate Exposure

Scope

This element covers the management of foreign exchange rate exposure, which arises when transactions denominated in foreign currencies are made.

The element excludes the activities of the Debt Management Office of The Treasury, which are addressed as a separate element (refer element 15) in this model.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include foreign exchange losses, leading to higher purchase costs than originally expected.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (expenses) and Statement of Financial Position (liabilities).

Control Criteria

The control criteria are designed to provide assurance that the management of foreign exchange exposure is consistent with the Crown's general risk-averse approach and that foreign exchange costs are minimised.

Control Criteria	
1	<p>Policies and procedures</p> <p>The foreign exchange rate exposure management policy approved by the Treasury or joint Ministers is in place.</p> <ul style="list-style-type: none">} <i>The policy, approved by The Treasury or joint Ministers, provides the operating framework and authorities for managing foreign exchange risks and exposures.</i>} <i>Procedures and guidelines are communicated to staff and provide the basis for consistent application of the department's foreign exchange policy and support decision-making on significant commitments.</i>
2	<p>Foreign exchange coverage</p> <p>The skills of personnel responsible for managing foreign exchange exposure are commensurate with the nature and level of the department's foreign exchange risk.</p> <ul style="list-style-type: none">} <i>Experienced personnel who understand the nature of the risks and their responsibilities in managing those risks undertake foreign exchange transactions.</i>
3	<p>Applicable rates used</p> <p>The rates applicable to each foreign exchange transaction are used.</p> <ul style="list-style-type: none">} <i>Systems are in place to provide assurance that the correct exchange rate is applied for each foreign exchange transaction, consistent with the department's recognition policy.</i>
4	<p>Foreign exchange rate management personnel</p> <p>Foreign exchange rate coverage is obtained where transactions exceed exposure thresholds.</p> <ul style="list-style-type: none">} <i>Where individual transactions or aggregate transactions for the year are expected to exceed exposure thresholds the department obtains coverage directly or through the Debt Management Office.</i>} <i>Timely comprehensive and variance reporting provides assurance as to the nature and extent of risk exposures and consistency with cashflow forecasting.</i>

10 Transitional Management Projects

Scope

This element covers the management of projects to implement government and departmental decisions to significantly change the nature or level of outputs to be provided by a department, or the organisational structure that supports departmental output delivery.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include that a transitional management project incurs excessive or unjustifiable costs.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (expenses) as well as for the Estimates of Appropriations.

Control Criteria

The control criteria are designed to provide assurance that transitional management projects are completed consistent with government and departmental policies and objectives, and in terms of project plans and budgets.

Control Criteria	
1	<p>Plans and budgets</p> <p>Integrated project plans and budgets exist that outline key milestones, processes, associated resource commitments and primary accountabilities.</p> <ul style="list-style-type: none">} <i>Approved and documented business cases or other authoritative support exists, which analyse the costs and benefits and articulate how the project will meet operational requirements.</i>} <i>Project plans and budgets, including project milestones, are comprehensive providing assurance that these are aligned to decisions made.</i>} <i>Decision-making authorities and accountabilities are explicit, quality assurance processes are established, and approved resource commitments are aligned with decisions.</i>} <i>Project risks are identified and assessed, with mitigation strategies agreed, documented and approved within or alongside project plans.</i>
2	<p>Extensions and other modifications to project plans and budgets</p> <p>Extensions and other modifications to project plans and budgets are approved.</p> <ul style="list-style-type: none">} <i>Variations to approved plans that have operational and financial consequences require documented and independent approval to provide assurance that project objectives will be met, that changes contemplated and costs can be controlled, and that project timelines are not adversely affected.</i>} <i>Variations and remedial actions are linked to the agreed risk management strategies, with timely actions to achieve project milestones and objectives.</i>} <i>Escalation management procedures are in place.</i>

Control Criteria	
3	<p>Communication strategies</p> <p>Communication strategies are developed and carried out to support project completion and implementation.</p> <ul style="list-style-type: none"> } <i>The timing and manner in which the objective and purpose of a project, its effect on staff, practices and resources is communicated, and to whom it is communicated, is planned to facilitate buy-in and structured management of the transition.</i> } <i>Responsibilities for communication are defined and documented.</i> } <i>Communication strategies include identifying the nature and timing of information to be communicated to fulfil governance, risk management and project requirements.</i> } <i>The impact on staff and support provided to manage the transition are defined and communicated.</i>

Statement of Financial Position

11 Cash Management

Scope

This element covers the forecasting and management of departmental cash flow and cash balances over time.

The element excludes trust accounts, which are addressed as a separate element (refer element 16) in this model.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include inability to meet commitments with consequential loss of discounts and other penalties.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Position (assets), in particular, and the Statement of Cash Flows.

Control Criteria

These control criteria are designed to provide assurance that cash balances are optimal, accurate and reconciled.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and guidelines exist to guide the management of cash balances as part of optimising the department's working capital position.</p> <ul style="list-style-type: none">} <i>Policies and guidelines provide the framework for management of cash balances held in cash, on-call accounts and term deposits.</i>} <i>The optimal cash balances and targets are reviewed and determined more frequently than the overall policies and procedures.</i>
2	<p>Routine monitoring of cash balances</p> <p>Routine monitoring of cash balances occurs to maintain balances within predetermined optimal levels.</p> <ul style="list-style-type: none">} <i>Cash balances are held to provide liquidity to support working capital requirements.</i>} <i>Bank account reconciliations are undertaken regularly and are subject to independent review, with reconciling items investigated and cleared on a timely basis.</i>} <i>Periodic performance reporting includes comparing actual balances with predetermined targets and taking actions, for instance through links with debtor and creditor management, to return balances to optimal levels.</i>

Control Criteria	
3	<p>Cash flow forecasting</p> <p>Cash flow forecasting is supported by documented underlying assumptions and reliable information from budget managers.</p> <ul style="list-style-type: none"> } <i>The basis and methods used for cash flow forecasting are clearly documented.</i> } <i>Procedures are in place to provide assurance that operating and capital cash flow commitment plans are current and take accruals into account, to improve the reliability of forecasting and minimise liquidity risks.</i> } <i>Variances against cash flow forecast are subject to investigation, with timely remedial action.</i>
4	<p>Deposit and payment settlement processes</p> <p>Cash receipts are deposited and payments settled accurately and on a timely basis.</p> <ul style="list-style-type: none"> } <i>Cash holdings are minimised as part of safeguarding cash assets and cash deposits are made accurately and to the correct bank accounts.</i> } <i>Payments are settled in a manner to maintain the positive commercial reputation of the department and government.</i> } <i>Access to bank accounts and accounting records (ledgers) is segregated to minimise the risk of error and fraud.</i> } <i>Access to bank accounts is restricted to individuals commensurate with their level of responsibility.</i> } <i>Procedures exist for separate approval and release of payments.</i>

12 Working Capital Management (departmental and Crown)

Scope

This element covers the management of a department's working capital, which includes receivables, inventories, consumables and trade and sundry payables. This element also includes the management of Crown receivables and advances, primarily student loans.

The element excludes cash management, which is addressed as a separate element (refer element 11) in this model.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include physical and financial loss through waste, fraud and theft.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Position (assets), as well as for the Estimates of Appropriations.

Control Criteria

The control criteria are designed to provide assurance that working capital is valid, complete and accurately recorded, assets are secure and receivables and advances are recovered.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and guidelines exist to guide the management of working capital balances to optimise the department's working capital position.</p> <ul style="list-style-type: none">} <i>Policies and guidelines provide the framework for management of working capital balances held as receivables and Crown advances (departmental and Crown), inventories, consumables, and trade and sundry payables.</i>} <i>The policies include accounting policies for the valuation of assets and liabilities and the treatment of accruals.</i>} <i>The optimal working capital balances and targets are reviewed and determined more frequently than the overall policies and procedures.</i>
2	<p>Asset and liability records</p> <p>Asset and liability records are valid, complete and accurate.</p> <ul style="list-style-type: none">} <i>Transactions are subject to routine process and review procedures that provide assurance that the department knows the financial and operational profile and location of working capital assets and liabilities.</i>} <i>Regular reconciliation between primary and secondary records, and exception and integrity-based checks are in place to minimise error and fraud, with timely remedial action taken.</i>} <i>The value of assets and liabilities is reasonable and, in particular, is not overstated.</i>
3	<p>Security and protection of assets</p> <p>Assets are protected and held securely.</p> <ul style="list-style-type: none">} <i>Routine processes, which include periodic physical and other systematic checks, are in place to provide assurance that assets are safeguarded and protected from potential loss and theft.</i>} <i>The level of activity to protect assets is commensurate with the value of assets.</i>

Control Criteria	
4	<p>Recovery of receivables and advances</p> <p>Recovery of receivables and advances is timely, using arrears management procedures.</p> <ul style="list-style-type: none"> } <i>Timely actions are directed at minimising bad debt risk and support provisioning requirements.</i> } <i>Records identify the debtor, and the nature, amount, outstanding period and status of recovery actions.</i>
5	<p>Holding inventories and consumables</p> <p>Usage rates and holding levels of inventories and consumables are regularly monitored and reviewed.</p> <ul style="list-style-type: none"> } <i>The pattern and rate of asset consumption are reviewed against holding levels and operating requirements in order to minimise potential waste and maintain optimum levels.</i> } <i>Timely remedial action is taken to maintain optimal levels relative to business needs.</i>
6	<p>Trade and sundry payables</p> <p>Optimal payables levels and costs are maintained, using creditor management procedures.</p> <ul style="list-style-type: none"> } <i>Creditor balances are assessed regularly to provide assurance that creditor levels match negotiated credit commitments.</i> } <i>Payment timing procedures, which balance efficiency and the costs and benefits of realising favourable credit terms, are directed towards securing discounts and avoiding penalties.</i>
7	<p>Accruals</p> <p>Accruals are determined on a consistent basis.</p> <ul style="list-style-type: none"> } <i>Consistent application of accounting policies minimises the risk of unjustifiable inter and intra period manipulation, with monitoring and review procedures reinforcing the measurement, validity, completeness and accuracy of accruals made.</i> } <i>Significant variances in the capital charge amount are reviewed to provide assurance as to consistent application of policies.</i>
8	<p>Provisioning</p> <p>Debtor and creditor provisioning is accurate.</p> <ul style="list-style-type: none"> } <i>Procedures are in place to periodically assess the status and recoverability of arrears and the condition, use and existence of inventories and consumables in order to identify and assess provisioning requirements at the earliest opportunity.</i> } <i>Asset write-downs, provisions and transfers are subject to independent review and approval and appropriation implications are identified.</i>

13 Project Management (Capital Acquisitions and Development)

Scope

This element covers the management of projects for the acquisition and development of capital assets from their inception through to capitalisation to meet the needs of the department.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include that a project does not realise its predetermined business objectives and incurs excessive or unjustifiable costs.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Position (assets), as well as for the Estimates of Appropriations.

Control Criteria

The control criteria are designed to provide assurance that projects are linked to business needs, performed in terms of approved project plans and budgets, and that project performance is evaluated.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and procedures are in place for establishing and managing capital projects.</p> <ul style="list-style-type: none">} <i>Project management guidelines provide the framework for structured initiation and ongoing management of projects and decision-making.</i>} <i>Significant projects use approved methods to minimise the risk of failure in realising business objectives and meeting budgets.</i>} <i>Guidelines cover key management aspects from project inception through to capitalisation, including communicating the objective and purpose of the project, and its effect on staff, practices and resources.</i>
2	<p>Plans and budgets</p> <p>Integrated project plans and budgets exist that outline key milestones, processes, associated resource commitments and primary accountabilities.</p> <ul style="list-style-type: none">} <i>Approved and documented business cases or other authoritative support exists, which analyse the costs and benefits of the project, identifies the associated financial impact and articulates how the project will meet the department's operational requirements.</i>} <i>Project plans and budgets, including project milestones, are comprehensive, providing assurance that these are aligned to business needs.</i>} <i>Decision-making authorities and accountabilities are explicit, quality assurance processes are established, and approved resource commitments are aligned with decisions made.</i>} <i>Project risks are identified and assessed, with mitigation strategies agreed, documented and approved within or alongside project plans.</i>

Control Criteria	
3	<p>Extensions and other modifications to project plans and budgets</p> <p>Extensions and other modifications to project plans and budgets are approved.</p> <ul style="list-style-type: none"> <i>} Variations to approved plans that have operational and financial consequences require documented and independent approval to provide assurance that project objectives will be met, that changes contemplated and costs can be controlled, and that project timelines are not adversely affected.</i> <i>} Variations and remedial actions linked to the agreed risk management strategies, with timely actions to achieve project milestones and objectives.</i> <i>} Escalation management procedures are in place.</i>
4	<p>Contracting out decisions</p> <p>Elements of the project to be contracted out are identified and assessed, and the preferred contracting methods determined.</p> <ul style="list-style-type: none"> <i>} There is a strategy for contracting out some or all elements of capital projects to achieve significant benefits over in-house arrangements.</i> <i>} Objective processes are used to identify the preferred supplier based on an assessment of delivery reputation, quality of service performance and price, against predetermined criteria and weightings.</i> <i>} Negotiation to obtain optimal terms and conditions occurs.</i> <i>} Contract and service specifications are established prior to contract commencement, with the contract establishing the legal relationship and the service specification detailing the scope and the desired performance levels of the service provider.</i> <i>} The contract also provides options for recourse in the event of non-performance.</i>
5	<p>Recognition of capital</p> <p>Accounting policies for recognising capital are in place with changes subject to independent management approval.</p> <ul style="list-style-type: none"> <i>} Departmental accounting policies define the nature, recognition and measurement of the components of capital during and at the completion of capital projects.</i> <i>} Changes to the definition or application of the constituent components of capital, which may affect the level of capital charge to be paid, are formally approved and communicated.</i>

14 Property, Plant and Equipment (departmental and Crown)

Scope

This element covers the management of both departmental and Crown property, plant and equipment, including acquisition and disposal.

The element excludes project management for major capital asset acquisitions and developments, which is addressed as a separate element (refer element 13) in this model.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include inefficient use of assets, decline in asset performance, physical loss or waste and valuation.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Position (assets), in particular, and the Statement of Movements in Equity, as well as for the Estimates of Appropriations.

Control Criteria

The control criteria are designed to provide assurance that transactions are authorised, accurately recorded, complete and valid, that assets are actively managed and efficiently utilised, maintained and secured, and that surplus assets are appropriately disposed.

Control Criteria	
1	<p>Asset management strategy / plan</p> <p>An asset management strategy / plan, linked to the department's operating and financial management priorities, is in place that guides the acquisition, maintenance and disposal of property, plant and equipment.</p> <ul style="list-style-type: none">} <i>The asset management plan specifies the nature, extent and timing of acquisitions and disposals and key maintenance requirements for the department's property, plant and equipment.</i>} <i>Competing demands are prioritised using objective predetermined criteria in order to meet established operational priorities and budgetary constraints.</i>} <i>Acquisition, development and disposal decisions are made in accordance with the asset management plan and executed consistent with departmental policies and procedures.</i>} <i>Adherence to departmental policies and procedures provides assurance that assets will be properly accounted for and actively managed to minimise waste.</i>} <i>Disposal decisions are reviewed before they are implemented.</i>
2	<p>Repairs and maintenance</p> <p>Repair and maintenance requirements are identified and incorporated in departmental operating plans and budgets.</p> <ul style="list-style-type: none">} <i>Delivery capability is maintained through the systematic assessment and recording of asset condition and repair and maintenance requirements, with explicit linkages to operating plans and budgets.</i>} <i>Accurate recording of maintenance activities undertaken occurs on timely basis.</i>

Control Criteria	
3	<p>Security and protection of assets</p> <p>Property, plant and equipment is protected and held securely.</p> <ul style="list-style-type: none"> } <i>Routine processes, which include periodic physical and other systematic checks, are in place to provide assurance that responsibility for the management of assets (including legal titles) is clear and assets are safeguarded and protected from potential loss and theft.</i> } <i>The level of activity to protect individual and groups of assets is commensurate with their value.</i>
4	<p>Asset records and valuations</p> <p>The value of all departmental property, plant and equipment is recorded accurately, consistent with departmental depreciation and valuation policies and procedures, and on a timely basis.</p> <ul style="list-style-type: none"> } <i>Acquisition and disposal transactions are subject to routine process and review procedures that provide assurance that the department has current information on the financial and operational profile and location of its asset resources and those assets it manages on behalf of the Crown.</i> } <i>Depreciation and (re-) valuation methods reflect the nature of assets and their use, and provide assurance that carrying amounts are not materially different from fair value.</i> } <i>The general ledger and underlying asset records (asset register) are subject to regular reconciliation and review to maintain completeness of non-cash transactions.</i>
5	<p>Property, plant and equipment holding costs</p> <p>Periodic assessment is made of whether existing assets are generating excessive holding costs, and whether alternative assets would improve efficiency.</p> <ul style="list-style-type: none"> } <i>Periodic assessment of asset holding costs is undertaken to identify underperforming assets and options for addressing that low performance in order to improve asset efficiency.</i>

15 Treasury Systems

Scope

This element covers the treasury management activities of the Debt Management Office of the Treasury, including Crown cash and bank balances, marketable securities and deposits, borrowing, other investments and borrowing and debt repayment.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include excessive financing costs, foreign exchange and capital losses.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Position (liabilities), in particular, and the Statement of Borrowings, as well as the Estimates of Appropriations (Appropriations for Borrowing Expenses).

Control Criteria

The control criteria are designed to provide assurance that treasury assets and borrowing are prudently managed and that costs are minimised.

Control Criteria	
1	<p>Policies and procedures</p> <p>A treasury risk management policies and procedures manual is in place to guide the management of and minimise treasury risk.</p> <p>} <i>A treasury risk management policies and procedures manual, which has been approved, sets out the operating framework and authorities for managing financial risks and exposures within predetermined limits.</i></p> <p>} <i>Periodic review of treasury practices focus on the effectiveness of risk management procedures and efficiency of treasury policies, with timely changes made to policies and procedures to maintain their currency.</i></p>
2	<p>Treasury management personnel</p> <p>The treasury function is staffed with personnel who have specified skills and experience and are assigned defined roles and responsibilities.</p> <p>} <i>The financial materiality of treasury transactions and potential significant exposure require that the treasury function is staffed with experienced personnel who understand the nature of those risks and their responsibilities in managing those risks.</i></p>
3	<p>Segregation of duties</p> <p>Segregation of duties for dealing, settlements and reporting exists, with transactions subject to checking procedures and approval.</p> <p>} <i>Segregation of duties in respect of transaction initiation, payment, accounting and monitoring is critical to maintaining the integrity of treasury systems and records.</i></p> <p>} <i>Periodic reviews or audits provide assurance that these segregations exist and are effective.</i></p>

Control Criteria	
4	<p>Routine performance reporting</p> <p>There is comprehensive reporting of exposures, compliance with policies and procedures, and performance against benchmarks.</p> <ul style="list-style-type: none"> <i>} Regular comprehensive and variance reporting provides assurance as to the compliance with approved risk limits and delegated authorities, nature and extent of risk exposures, and performance achievement against established benchmarks.</i> <i>} Ad hoc reporting exists and is triggered when positions taken or results meet predetermined parameters or risk tolerance levels.</i> <i>} Remedial management actions, which are documented and reported, are timely.</i> <i>} Independent approval is sought to deviate from established parameters.</i>

Other Statements

16 Trust Money

Scope

This element covers the establishment and operation of accounts for receiving, holding and distributing trust monies.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include inappropriate establishment of trust accounts and fraud.

Implications

This element has implications for the Financial Statements of Government – Statement of Trust Money.

Control Criteria

The control criteria are designed to provide assurance that trust accounts are established and operated in accordance with legislative requirements, with transactions and balances recorded accurately, completely and on a timely basis.

Control Criteria	
1	<p>Establishment of trust accounts</p> <p>Trust accounts are established and retained consistent with legislative requirements and the requirement that trust money is clearly separate from the Crown and departmental operations.</p> <ul style="list-style-type: none">} <i>There is a clear justification for establishing a trust account, which meets the requirements of section 66 of the Public Finance Act 1989 and other applicable legislation.</i>} <i>Procedures are in place to approve the establishment of a trust account.</i>} <i>The ongoing use of trust accounts is valid and opportunities for irregularities are minimised.</i>} <i>Review and monitoring procedures focus on the legitimacy and propriety of continuing to operate established trust accounts within the identified legislative and policy frameworks.</i>} <i>Irregularities in the ongoing existence of particular trust accounts are systematically identified, with timely action to disestablish the accounts and distribute or reallocate the balances.</i>
2	<p>Policies and procedures</p> <p>Policies and guidelines governing trust accounts are consistent with the operational requirements specified in the Public Finance Act and other applicable legislation.</p> <ul style="list-style-type: none">} <i>The establishment of a trust account, handling of trust monies and interest, review, approval and other operating procedures are clearly documented and consistent with identified legislative requirements.</i>} <i>Policies reinforce the restricted use of and access to trust accounts, and trust accounts are held as separate records in the FMIS.</i>

Control Criteria	
3	<p>Routine payments</p> <p>Trust account transactions, particularly withdrawals and account closures, are subject to independent approval and are properly recorded.</p> <ul style="list-style-type: none"> } <i>Procedures are in place to maintain proper processing of and accounting for trust account transactions and balances.</i> } <i>Independent review and approval processes provide assurance that transactions are valid, minimising the risk of fraud or impropriety.</i> } <i>Withdrawals and account closures are subject to particular scrutiny to confirm their propriety.</i>
4	<p>Routine monitoring of cash balances</p> <p>Independent reconciliations of trust account balances are undertaken and reviewed on a regular basis.</p> <ul style="list-style-type: none"> } <i>Trust account ledger records are independently and regularly reconciled, and regularly reviewed against cash balances in bank statements, with identified variances addressed on a timely basis.</i> } <i>Trust account financial records (ledger balances and transactions) are independently and regularly reconciled to the underlying records, and reviewed regularly, with identified variances addressed quickly.</i> } <i>Records are maintained in sufficient detail to enable the trust account balance to be identified to individual depositors or beneficiaries.</i>

All Statements

17 Financial Management Information Systems (FMIS)

Scope

This element covers the collection, storage and presentation of financial and performance information in a department's primary FMIS, and maintenance of the associated technology.

The element excludes reporting of this information, which is addressed as separate elements (refer elements 4-16) in this model.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include that the FMIS does not provide meaningful information, leading to potential increased cost or failure to meet reporting obligations.

Implications

This element generates data for the Estimates of Appropriations and the Financial Statements of Government.

Control Criteria

The control criteria are designed to provide assurance that the FMIS is able to generate financial and performance information that is relevant, complete, accurate and timely.

Control Criteria	
1	<p>Data capture and processing</p> <p>Correct data is captured and accurately processed to retain data integrity.</p> <ul style="list-style-type: none">} Routine integrity and security procedures are in place to provide assurance that accurate and relevant data is identified, coded and recorded within the FMIS.} Changes to data, including journal entries, are subject to review and approval processes.} Review procedures (including operating access rights, reconciliation checks, integrity-based checks, exception reports and data back-up procedures) are in place to provide assurance that information is accurately processed and maintained.} Actions are undertaken on a timely basis to correct any errors and anomalies.
2	<p>FMIS technology and applications</p> <p>FMIS technology and applications continue to comply with generally accepted standards and are supported by mature suppliers.</p> <ul style="list-style-type: none">} Maintenance and service level agreements are in place to maintain the operating performance of the FMIS at performance levels set out in the FMIS specifications, with routine maintenance, including preventative maintenance, carried out on a timely basis.} Changes to FMIS functionalities or systems, including application code changes, are reviewed against approved specification changes and tested to provide assurance that modifications have been correctly made and meet users' changed information needs and changed reporting requirements.} Routine monitoring of technology developments, changes in information and reporting requirements, and shortfalls in the current system is in place.} Decisions about taking system upgrade options and purchasing or developing new systems focus on maintaining a best fit between FMIS functionality and performance and user needs.

18 Ancillary Financial Management Information Systems

Scope

This element covers the collection, storage and manipulation of financial information in ancillary FMIS, including databases, spreadsheets and manual systems.

The element excludes payroll and costing systems and asset registers, which are addressed as separate elements (refer elements 5, 14 and 20) in this model.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include that non-core FMIS do not provide meaningful information, leading to non-availability of data and inefficient use of systems.

Implications

This element generates data for the Estimates of Appropriations and the Financial Statements of Government.

Control Criteria

The control criteria are designed to provide assurance that non-core FMIS are accessible to key users and provide information that is relevant, complete, accurate and timely.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and procedures exist to guide the creation, use and maintenance of ancillary FMIS.</p> <ul style="list-style-type: none">} <i>Policies and guidelines provide a framework for managing the use of ancillary systems, in order to minimise the risk of proliferation and their inefficient use.</i>} <i>Reporting requirements drive the specification and use of ancillary FMIS in support of the primary FMIS.</i>} <i>Policies and procedures address, amongst other matters, risk and control requirements for data integrity, sensitivity and confidentiality classification, access rights and system availability.</i>} <i>Adherence to policies provides assurance as to the effective performance and management of these systems.</i>
2	<p>Data capture and processing</p> <p>Correct data is captured and accurately processed to retain data integrity.</p> <ul style="list-style-type: none">} <i>Routine integrity and security procedures are in place to provide assurance that accurate and relevant data is identified, coded and recorded within the FMIS.</i>} <i>Changes to data, including journal adjustments and other types of financial adjustments are subject to review and approval.</i>} <i>Review procedures, including operating access rights, reconciliation checks, integrity-based checks and exception reports are in place to identify and prevent incorrect data from being recorded and retained.</i>} <i>Actions are undertaken on a timely basis to correct any errors and anomalies.</i>

Control Criteria	
3	<p>Data security</p> <p>Data captured in ancillary systems is held securely.</p> <ul style="list-style-type: none"> <i>} Data is classified within the approved sensitivity and confidentiality framework with access rights to data restricted consistent with that classification and individual responsibilities held.</i> <i>} Explicit approval is required for releasing information to external parties and procedures are in place to detect and deal with breaches, on a timely basis.</i> <i>} In the event of a disruption, continued availability of information is supported by predetermined alternative arrangements that exist and have been tested.</i>
4	<p>Design of ancillary FMIS</p> <p>The integrity of the design of and changes to ancillary systems are subject to review.</p> <ul style="list-style-type: none"> <i>} Ancillary FMIS are directed towards supporting the primary FMIS to meet reporting requirements unable to be met by that system.</i> <i>} The design of ancillary FMIS addresses risk, data control and system availability requirements.</i> <i>} The technical and functional design and any changes thereto are reviewed against approved specifications and are tested to provide assurance that results generated are accurate and meet user needs.</i> <i>} The proprietorship of the design and specification of ancillary systems is secured. Intellectual property, which includes the models and any associated instructions, systems descriptions and other documentation, is physically and contractually secured to protect the department's investment in their creation and use.</i>
5	<p>Register of ancillary FMIS</p> <p>A register of the nature and responsibility for key ancillary systems is maintained.</p> <ul style="list-style-type: none"> <i>} The use of a register assists with the identification and management of ancillary FMIS at a departmental level where these systems are extensively used.</i> <i>} The register is regularly updated to establish and confirm the profile of and responsibility for those key systems.</i>

19 Delegations

Scope

This element covers the operation of processes for delegating decision-making authority, especially where the exercise of authority has financial implications.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include decisions made that improperly commit resources and lead to waste.

Implications

This element has implications for the *Financial Statements of Government*.

Control Criteria

The control criteria are designed to provide assurance that delegations are appropriately held.

Control Criteria	
1	<p>Delegations and delegation limits and policy</p> <p>Delegations and delegation limits are approved at relevant levels of authority in accordance with responsibilities, departmental policies and guidelines, and other authoritative requirements.</p> <ul style="list-style-type: none">} <i>Chief executives have full financial authority within a department up to limits delegated to them by Cabinet.</i>} <i>Chief executives typically delegate significant authorities to senior managers and other specified position holders, along with the authority for managers to further delegate.</i>} <i>Delegations may be made directly, through instruments of delegation to specific individuals, and generally, through departmental policies.</i>} <i>Delegation limits, including budget allocations, are assigned to individuals commensurate with their level of experience and responsibilities.</i>} <i>Where able to be aggregated, delegation limits do not exceed the chief executive's total financial limits.</i>
2	<p>Documentation</p> <p>Documentation exists to support current delegations.</p> <ul style="list-style-type: none">} <i>Delegations are clearly specified in terms of their nature and financial limits, supported by documentation, with authority for specific types of financial commitments also specified and documented.</i>} <i>Documentation is updated regularly for changes in organisational arrangements, responsibilities and staff movement, including when a new chief executive is appointed.</i>
3	<p>Expenditure within delegation limits</p> <p>Expenditure occurs within delegation limits and, where necessary, approval is sought from the Minister and Cabinet.</p> <ul style="list-style-type: none">} <i>Periodic review is undertaken at transaction and aggregate levels, to confirm that the policies, guidelines and approved limits are adhered to.</i>} <i>Exception based reporting or other procedures identify non-compliance, with timely remedial action.</i>} <i>Consistent breaches of delegations are identified and assessed to determine whether existing policies, responsibilities and delegation arrangements should be retained or modified.</i>

20 Costing Systems

Scope

This element covers the determination of the cost of output production.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include low quality financial information, leading to poor decisions on resource allocation, management of inputs and spending priorities.

Implications

This element has implications for all Financial Statements of Government and the Statement of Financial Performance (expenses), in particular, as well as the Estimates of Appropriations.

Control Criteria

The control criteria are designed to provide assurance that output costing is reliable and relevant.

Control Criteria	
1	<p>Policies and procedures</p> <p>Costing policies and guidelines reflect the nature of the department's output delivery responsibilities, input mix and the use and value of assets in the production of those outputs.</p> <ul style="list-style-type: none">} <i>The department's approach to costing is clear and uses a reliable and documented method for assigning direct and indirect costs to outputs that is commensurate with the complexities of its activities and outputs.</i>} <i>Indirect costs are allocated with reasonable correlation to the resources used in producing the respective outputs, with direct costs fully attributed.</i>} <i>Policies guide the review and revision of attribution and allocation formulae and rates.</i>} <i>Cost drivers and non-financial variables in the costing model are periodically reviewed for relevance, accuracy and consistent application.</i>} <i>The effects of any proposed changes to these variables are assessed as part of seeking formal approval.</i>
2	<p>Application of output costing policies</p> <p>Costing policies are applied in a consistent way at the output level, both within and across financial periods, with changes to costing policies formally approved.</p> <ul style="list-style-type: none">} <i>Consistent application of costing policies and models minimises the risk of unjustifiable inter and intra period manipulation.</i>} <i>Assumptions relating to cost drivers and financial and non-financial variables are reviewed to maintain the currency of the formulae and rates used in the costing models.</i>} <i>Procedures are in place to provide assurance that direct costs are attributed and indirect costs allocated consistent with policies.</i>

Control Criteria	
3	<p>Data capture and processing</p> <p>Correct data is captured and accurately processed to retain the integrity of output cost data.</p> <ul style="list-style-type: none"> <i>} Routine integrity and security procedures are in place to provide assurance that accurate and relevant data is identified, coded and recorded for output costing purposes.</i> <i>} Review procedures, including operating access rights, reconciliation checks, integrity-based checks, exception reports and data back-up procedures are in place to provide assurance that output cost information is accurately processed and maintained.</i> <i>} Actions are undertaken on a timely basis to correct any errors and anomalies.</i>
4	<p>Output cost information</p> <p>Output costing information is used to inform the management of inputs and spending priorities.</p> <ul style="list-style-type: none"> <i>} Reliable costing information provides the basis for assessing and monitoring output delivery performance and efficiency.</i> <i>} Variations in output costs against budget are investigated from a management perspective in the first instance (rather than reviewing the costing model) to determine whether to retain present arrangements or to change resource allocation, input mix and spending priorities.</i>

Review and Reporting – ex post

21 Internal Assurance Mechanisms

Scope

This element covers the mix and degree of reliance on the operation of the department's selection of internal controls, risk management and other formal internal assurance processes relative to risk.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include that internal assurance mechanisms fail to identify inefficient use of resources, inefficient delivery methods and unreliable financial and performance information.

Implications

This element has implications for all of the *Financial Statements of Government* and, in particular, the *Statement of Responsibility*.

Control Criteria

These control criteria are designed to provide assurance as to the reliability of internal assurance mechanisms, individually and collectively.

Control Criteria	
1	<p>Internal control environment</p> <p>A system of internal controls operates during the year, which contributes to the confidence the chief executive has to sign the annual Statement of Responsibility.</p> <ul style="list-style-type: none">} <i>Departmental policies and guidelines establish the approach to, and the nature, mix and degree of internal assurance mechanisms employed by a department.</i>} <i>Policies are commensurate with the range of its activities and outputs, size and complexity of operations, risk profile and performance history.</i>} <i>Policies and guidelines are maintained and communicated to staff, with expectations of maintaining a strong control environment.</i>
2	<p>The selection and operation of internal assurance mechanisms that comprise the internal control system reflect current practice and optimal arrangements for the department and the effectiveness and efficiency of mechanisms are subject to periodic review.</p> <ul style="list-style-type: none">} <i>Periodic review provides assurance as to the continual alignment of assurance activities with changes in the department's responsibilities and risk profile, internal control systems and staff movements.</i>} <i>Periodic review considers the application of the department's assurance and risk management policies and how these activities support informed decision-making.</i>

Control Criteria	
3	<p>Internal controls monitoring system</p> <p>An integrated, systematic process of internal control monitoring is employed.</p> <ul style="list-style-type: none"> <i>} The approach to monitoring internal controls and the various methods employed throughout the department are clear and embedded into processes.</i> <i>} Monitoring is routinely applied and provides assurance that the underlying internal control procedures and activities operate as intended.</i> <i>} Exceptions identified are addressed and resolved in a consistent and timely manner, in support of a sound control environment.</i>
4	<p>Risk management</p> <p>Departmental risk management policies and procedures, including business continuity planning, are explicit and in place.</p> <ul style="list-style-type: none"> <i>} There is alignment between the department's risk management objectives, systems and processes with Ministerial and central agencies' expectations.</i> <i>} The risk management process is planned, approved, documented and communicated to staff and relevant parties, to enable a structured, consistent and integrated management of risks.</i>
5	<p>Risk identification, assessment and treatment and communication of risk management expectations occur and are continuous.</p> <ul style="list-style-type: none"> <i>} A systematic process is adopted to prioritise risk management effort and resources at a departmental level.</i> <i>} Risk management is embedded in routine management processes.</i>
6	<p>Internal audit</p> <p>The mandate and responsibilities of internal audit are approved and communicated.</p> <ul style="list-style-type: none"> <i>} The objectives, purpose, scope, nature and extent of internal audit activities and reporting are documented and approved by the chief executive.</i> <i>} Internal audit's scope covers departmental internal control systems, with unrestricted access to people, systems and information.</i> <i>} Regular scheduled meetings with the chief executive and senior management provide assurance that internal audit activities remain focused and aligned to the needs and risk profile of the department.</i> <i>} Internal audit involvement in management team processes also provides the opportunity for it to address risk and control issues associated with proposed changes to systems and controls.</i> <i>} Internal audit's role and responsibilities are communicated to departmental staff.</i>
7	<p>Annual internal audit plans are developed, approved and communicated.</p> <ul style="list-style-type: none"> <i>} The audit planning process is structured, with relevant stakeholders (including the external auditor) consulted, in order to efficiently address risk priorities and management's expectations.</i> <i>} The audit plan and strategy is approved by the chief executive (and the Audit Committee where one exists) and communicated to relevant parties.</i> <i>} The audit plan is a rolling plan generally covering a three to five year period.</i>

Control Criteria	
8	<p>Internal audit is managed in accordance with current professional standards and practices.</p> <ul style="list-style-type: none"> <i>} The methods, systems and procedures used by internal audit are consistent with identified professional standards and best practices, encompassing risk assessment, audit planning, fieldwork, reporting and review.</i> <i>} Internal audit does not carry out line management activities that impair its objectivity.</i> <i>} Procedures exist to mitigate this risk by using different audit staff if members of the internal audit team designs or implements systems and controls on which the team is later required to provide an objective assessment.</i>
9	<p>Audit committee</p> <p>The terms of reference of the audit committee are clear, approved and communicated.</p> <ul style="list-style-type: none"> <i>} The objectives, scope, nature and extent of the audit committee's role and responsibilities are documented, approved and communicated to staff by the chief executive.</i> <i>} Committee members include non-departmental personnel who have the skills and experience necessary to discharge the committee's responsibilities and obligations, introducing objectivity and independence into the work of the committee.</i> <i>} An external member generally chairs the committee.</i>
10	<p>The committee operates to its terms of reference.</p> <ul style="list-style-type: none"> <i>} The committee meets at least three times a year, and considers matters and makes recommendations for the improvement of the department's control environment.</i> <i>} In particular, the committee evaluates the internal audit plan and reports, the department's strategic documents and the external audit plan and management review.</i> <i>} The committee makes enquiries necessary to satisfy itself that risks identified in these documents are addressed in a timely manner and that unmitigated risks are accepted by the chief executive.</i> <i>} The committee also periodically assesses the performance of the internal audit team and external audit process, in support of the chief executive's responsibilities.</i> <i>} Internal audit team members periodically attend meetings of the audit committee to report on the status and results of its audit activities.</i>
11	<p>Quality management</p> <p>Formal quality management processes are in place with expectations communicated.</p> <ul style="list-style-type: none"> <i>} Policies and procedures that set out the objectives, nature, processes and responsibilities for the delivery of formal quality systems are communicated to staff.</i> <i>} The quality management programme is documented and implemented, with quality standards agreed and results measured.</i> <i>} Processes are in place to meet external accreditation requirements.</i>

22 Management Reporting

Scope

This element covers the preparation of data relating to departmental revenue, expenditure and output delivery performance for line managers, analysis of variances by line managers, aggregation of performance reports (data and variance reports) and responses to variances and forecast outturn by general and executive management.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include management decision-making based on irrelevant, unreliable or outdated reporting, and unreliable aggregate reporting.

Implications

This element has implications for the *Financial Statements of Government*.

Control Criteria

The control criteria are designed to provide assurance that reporting is reliable and timely, and supports informed departmental decision-making.

Control Criteria	
1	<p>Provides relevant, reliable and understandable information</p> <p>Regular performance reports for line managers provide relevant, reliable and understandable financial and non-financial performance information.</p> <ul style="list-style-type: none">} <i>Regular financial and non-financial performance reports are provided for line managers to reinforce individual responsibilities in managing both the selection and use of inputs and delivery of outputs.</i>} <i>The information specifications of line managers determine the focus of the performance information, with reporting formats and style designed to meet line managers' needs for detailed as well as overview and summarised information.</i>} <i>Performance exceptions and variances from established performance parameters, for the current period and cumulatively, are highlighted for review and remedial action.</i>} <i>Reporting is automated wherever possible, using information sourced or generated directly from systems, to minimise errors and inefficiencies that arise from re-keying data for manual adjustments.</i>} <i>Reports are reviewed for reasonableness prior to delivery to line managers, especially following manual interventions in reporting format or content, to identify and correct reporting errors.</i>

Control Criteria	
2	<p>Use of performance reports by line managers</p> <p>Line managers review and analyse confirmed variances in performance reports and prepare narrative reports to indicate the actions needed and taken to achieve forecast year-end performance.</p> <ul style="list-style-type: none"> <i>} Line managers review regular performance reports to confirm the accuracy of the data and of the variances highlighted.</i> <i>} Where information gaps or information integrity issues are identified, managers communicate the corrective actions required, in order to improve the relevance and reliability of reports.</i> <i>} Managers then analyse the variances to identify the implications for forecast year-end results.</i> <i>} Confirmed variances are subject to timely remedial action by line managers. In order to mitigate the recurrence of poor performance, options are proposed for addressing unavoidable variances and to facilitate the timely escalation of issues.</i>
3	<p>Senior and executive management review</p> <p>Confirmed performance and variance reports are aggregated for review and action by senior and executive management.</p> <ul style="list-style-type: none"> <i>} Aggregation of performance and variance reports occurs progressively for senior managers through the department's structure to reinforce collective responsibilities in managing both the selection and use of inputs and delivery of output. This culminates in reports for executive management at department wide and appropriation levels.</i> <i>} Senior and executive management interrogate the reasonableness of aggregate performance, implications of variances for year-end performance and proposals for addressing variances.</i>
4	<p>Provides basis for external reporting</p> <p>Aggregated internal performance reporting provides the basis for meeting the department's external reporting obligations.</p> <ul style="list-style-type: none"> <i>} Management reporting is aligned to the output delivery and ownership performance responsibilities established in departmental plans and budgets and to the general information needs of executive and senior management.</i> <i>} Department-wide financial and non-financial performance reports enable executive management to assess progress in achieving operating and financial plans and strategies, and provide a platform for managing risks to performance and for supporting informed decision-making.</i>

23 External Performance Reporting

Scope

This element covers three main areas:

- 1 The preparation of regular external performance reports against purchase agreements and ownership matters included in chief executives' performance agreements and other ownership performance planning and budgeting documents.
- 2 The preparation and issue of annual reports to Parliament on actual departmental output and financial performance are included.
- 3 A department's obligation to provide information in support of the Treasury's preparation of monthly and annual Financial Statements of Government (FSG) relating to departmental and Crown activity.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include unreliable reporting that does not accurately and meaningfully reflect the activities and performance of the department and the Crown, leading to an undermining of the value of these reports to users.

Implications

This element has implications for the *Financial Statements of Government*.

Control Criteria

The control criteria are designed to provide assurance that information provided by departments is accurate, complete and free from material misstatements and that external departmental and Crown reporting is reliable and timely.

Control Criteria	
1	<p>Regular in-period performance reporting</p> <p>Regular performance reporting obligations to Ministers and central agencies are met.</p> <ul style="list-style-type: none">} <i>The department has identified and communicated its administrative reporting obligations and requirements, in particular reporting relating to specific output and ownership-related agreements.</i>} <i>In-period performance reporting may be comprehensive or exception-based, includes explanations of variances and indicates actions proposed or taken for addressing variances.</i>} <i>Procedures exist for accurately identifying and disclosing financial commitments, contingencies and other fiscal risks.</i>} <i>Potential and actual un-appropriated expenditure is monitored, reported and addressed at the earliest opportunity, particularly during the last two quarters of the financial year.</i>

Control Criteria	
2	<p>CFIS schedules</p> <p>Information to be included in Crown Financial Information System (CFIS) schedules meets aggregate reporting requirements.</p> <ul style="list-style-type: none"> <i>} Procedures are in place for the chief executive and chief financial officer to obtain adequate assurance for underpinning the assertions of responsibility in CFIS returns.</i> <i>} Guidelines exist to support the accurate, complete and timely production of CFIS information, with information submitted for consolidation checked for accuracy and completeness before it is signed-off.</i> <i>} CFIS information is agreed and reconciles to the FMIS records and audited financial statements.</i>
3	<p>Intra-Crown transactions</p> <p>Intra-Crown transactions to be eliminated for consolidation purposes are identified.</p> <ul style="list-style-type: none"> <i>} Procedures are in place for identifying and reconciling Revenue Crown with DMO statements and selected output purchase from Crown entities, for elimination from the FSG transactions.</i> <i>} Variances are identified and addressed on a timely basis, having regard for the potential risk and impact of inconsistent accounting policies being applied.</i>
4	<p>Accounting policy differences</p> <p>Differences between the department's and the Crown accounting policies are explicit and information on the application of the Crown policies to the department's assets and liabilities is provided.</p> <ul style="list-style-type: none"> <i>} Review procedures identify accounting policy differences for determining the consequence of retaining policies or making changes.</i> <i>} Inconsistencies in policies are documented and the impact of the adoption of differing accounting policies on measurement of the department's assets and liabilities is systematically recorded and disclosed.</i> <i>} Changes to accounting policies that introduce differences with Crown policies are communicated to The Treasury at the earliest opportunity.</i>
5	<p>Process supporting the Statement of Responsibility</p> <p>A process is in place to support the chief executive's sign-off of the Statement of Responsibility, for inclusion in the annual report.</p> <ul style="list-style-type: none"> <i>} The department has identified its statutory reporting obligations and requirements relating to its annual financial statements and report.</i> <i>} The basis on which the chief executive has confidence to sign the Statement of Responsibility each year is clear and the process for providing the necessary support is documented, including explicit references to the particular aspects of the department's internal control system on which the chief executive relied each year.</i>
6	<p>Annual statutory reporting</p> <p>Annual statutory reporting obligations are met.</p> <ul style="list-style-type: none"> <i>} A timetable is developed and communicated to relevant parties, including the external auditor, and responsibilities for preparing, internal review, sign-off and submitting annual reports are explicit.</i> <i>} Review processes provide assurance as to the reliability, accuracy and completeness of information presented, and the consistency of this information with that provided for aggregate reporting purposes.</i> <i>} Additional or supplementary information is approved for inclusion where it provides more comprehensive or better information about departmental performance and activities than minimum disclosure requirements.</i>

24 Continuous Improvement

Scope

This element covers a department's overall approach to and specific activities aimed at continuously improving its performance in meeting its obligations to provide information to support the preparation by the Treasury of the monthly and annual Financial Statements of Government.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include that critical opportunities to improve the quality of information and efficiency of reporting are not taken, leading to reporting that does not accurately reflect the significant activities and performance of the Crown.

Implications

This element has implications for the *Financial Statements of Government*.

Control Criteria

The control criteria are designed to provide assurance that information provided by departments is accurate and complete and, free from material mis-statements.

Control Criteria	
1	<p>Continuous improvement objectives</p> <p>The objectives and nature of the department's continuous improvement approach and processes are defined and communicated and support departmental performance and reporting objectives.</p> <ul style="list-style-type: none">} <i>The continuous improvement approach may involve formal planning, particular processes for considering findings and recommendations from internal assurance mechanisms and external audit and review processes, and a general expectation that opportunities for improvement will be pursued.</i>} <i>Formal planning for continuous improvement is consistent with departmental policies and reporting cycles and allows a degree of flexibility for changes in needs and circumstances to increase the quality of improvement actions.</i>} <i>Continuous improvement objectives are embedded in the general management and operating environments, including the identification of ineffective internal assurance mechanisms and interactions between them.</i>
2	<p>Pre and post implementation reviews</p> <p>Pre and post implementation reviews are carried out for projects conducted under the department's project management policies and guidelines.</p> <ul style="list-style-type: none">} <i>Pre and post implementation reviews of activities implemented under the department's project management policies and guidelines provide assurance that projects undertaken will add value to the department's operations. Reviews also provide assurance that project management processes are followed, projects are assessed against the stated scope and objectives and that areas of improvement in both project management and specific aspects of the department's operations are incorporated into future projects.</i>

Control Criteria	
3	<p>Communicating and implementing decisions</p> <p>Users are involved in considering the findings and recommendations of internal assurance mechanisms and external audits and reviews.</p> <ul style="list-style-type: none"> <i>} Continuous improvement requires the involvement of those whose responsibilities and practices are likely to be affected by management decisions.</i> <i>} Decisions may require specific remedial action, implementation of alternative arrangements and modification of the requisite skills and practices to meet the department's performance obligations and standards.</i> <i>} Transparent processes for management and those affected to consider findings and recommendations assists acceptance and implementation.</i>
4	<p>Decisions are communicated to relevant parties and the implementation of decisions is monitored and followed up.</p> <ul style="list-style-type: none"> <i>} The department uses a range of formal and informal mechanisms to identify deficiencies and inefficiencies in its operations, the findings and recommendations of which are communicated to management for consideration.</i> <i>} While recommendations from these mechanisms may not be accepted, management and users actively consider their merit and decisions are communicated to relevant parties on a timely basis to support timely remedial action to be taken.</i> <i>} Implementation conforms to departmental procedures and, where applicable, guidelines for project management and are monitored to achieve the benefits inherent in the improvement decisions.</i>
5	<p>Periodic feedback is sought from the Minister</p> <p>Periodic feedback is sought from the Minister.</p> <ul style="list-style-type: none"> <i>} The Minister's satisfaction with the department's performance is obtained on a regular basis.</i>

Crown Revenue and Expenditure

25 Crown Entity Performance – Forecasting

Scope

This element covers a department's role in providing purchase and ownership advice relating to Crown entity performance, to support the preparation by The Treasury of the annual and supplementary Estimates of Expenditure and Economic Fiscal Updates. The element includes appropriations for the supply of outputs by third parties (Crown entities and non-Crown suppliers).

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include excessive or unjustifiable costs, relative to government policy objectives and Minister's expectations.

Implications

This element has implications for the Estimates of Appropriations and the Information Supporting the Estimates.

Control Criteria

The control criteria are designed to provide assurance that information relating to Crown entity activity is consistent with Minister's expectations and it is complete and free from material mis-statements.

Control Criteria	
1	<p>Keeping Crown entities informed</p> <p>Departments keep Crown entities informed of government strategy and the Minister's priorities for incorporation by the entities in their submissions for aggregate planning and budgeting processes.</p> <ul style="list-style-type: none"><i>Processes are in place to provide assurance that Crown entities have current government information on which to base the preparation of their aggregate planning and budgeting submissions.</i><i>Processes are also in place for departments to keep entities informed of the requirements for and timing of the Budget process to facilitate incorporation of Crown entity data in departmental submissions.</i>
2	<p>Crown entity submissions</p> <p>Crown entity submissions for incorporation in Budget and forecast update submissions are reviewed for consistency with government policies and strategies and the Minister's priorities and reasonableness.</p> <ul style="list-style-type: none"><i>Departments review Crown entity submissions for output and capital appropriations for incorporation in the annual Budget and forecast updates with a focus on consistency and reasonableness.</i><i>Consistency is considered relative to government intentions indicated through government strategies, priorities and policy decisions.</i><i>Reasonableness is considered relative to the entity's operational context and consideration of historical performance, risk environment and operational priorities.</i>

Control Criteria	
3	<p>Forecasting third party output expenditure</p> <p>Departmental Budget submissions for outputs to be purchased from third parties are consistent with government policies and strategies and the Ministers' priorities, and are supported by documented underlying assumptions.</p> <p>} <i>The departments' Budget and forecast submissions relating to outputs purchased from third parties (non-Crown suppliers) are based on a combination of historical information, government strategies and policy decisions and Ministers' purchasing priorities.</i></p> <p>} <i>The risks inherent in the assumptions, data or variables used are identified, addressed and recorded. Presentation of the submissions meets external administrative requirements.</i></p>
4	<p>Non-departmental output class specification</p> <p>The technical nature and structure of non-departmental output classes for each Vote administered by the department are consistent with legislative requirements, government policies and strategies, and the Minister's purchase decisions and priorities.</p> <p>} <i>Review procedures are in place to provide assurance as to:</i></p> <ul style="list-style-type: none"> - <i>the technical quality of non-departmental output class specifications (structure, description and performance dimensions) and;</i> - <i>the consistency of specifications with government policy and Ministers' purchase decisions.</i>
5	<p>Monitoring aggregate expenditure on non-departmental outputs</p> <p>Aggregate expenditure levels for non-departmental output classes are monitored against the forecasts that support the appropriations to maintain the integrity of appropriation controls.</p> <p>} <i>Regular monitoring and review procedures exist to identify expenditure levels as they approach appropriation limits during the year.</i></p> <p>} <i>Procedural requirements for preparing baseline amendment submissions for Supplementary Estimates and forecast updates are defined and used.</i></p>
6	<p>Review of purchasing strategies</p> <p>Purchasing strategies are reviewed, having regard to whether the prices paid for the outputs represent value for money.</p> <p>} <i>Periodic review is undertaken of non-departmental output delivery performance and costs against other government purchasing alternatives. A review provides assurance that non-departmental outputs are efficiently delivered, whether by Crown entities or third parties, and that pricing mechanisms provide the best value for the Crown.</i></p> <p>} <i>Review activities may take place during or separate from the Budget process.</i></p>

26 Other Crown Revenue and Expenditure – Forecasting

Scope

This element covers a department's obligation to provide information relating to Crown revenue and expenditure (operating and capital), in support of The Treasury's preparation of the annual and supplementary Estimates and economic fiscal updates.

The element excludes appropriations for non-departmental output classes, which are addressed as a separate element in this model (refer element 25).

Key financial risks

The key financial risk arising from weaknesses in the operation of departmental processes and systems in this element is that ex-ante aggregate reporting does not meaningfully reflect the significant financial flows associated with the non-departmental activities of the Crown.

Implications

This element has implications for the Estimates of Appropriations and the Budget Economic and Fiscal Updates.

Control Criteria

The control criteria are designed to provide assurance that information provided by departments is based on explicit assumptions, complete and free from material misstatements.

Control Criteria	
1	<p>Operation of forecasting models</p> <p>Forecasting of non-departmental revenue and expenditure is consistent with government policies, based on relevant, current and reliable input data and supported by documented underlying assumptions.</p> <ul style="list-style-type: none"><i>In applying or operating forecasting models, the source(s) of input data and the assumptions made are explicitly aligned to the government policies.</i><i>The risks inherent in the assumptions, input data and the model itself are identified, addressed and recorded.</i><i>Assumptions and data used are independently reviewed for relevance and accuracy.</i><i>Routine review procedures, including reasonableness reviews, are performed to confirm that the variables and rules are applied consistently and to identify and remedy any errors and anomalies in the forecasting results on a timely basis.</i>
2	<p>Monitoring aggregate revenue and expenditure</p> <p>Non-departmental aggregate revenue and expenditure levels are monitored against the forecasts that support the appropriations to maintain the integrity of appropriation controls.</p> <ul style="list-style-type: none"><i>Regular monitoring of actual performance against forecast is in place to identify and address expenditure levels as they approach appropriation limits.</i><i>Investigation of material variances in revenue and expenditure levels occurs on a timely basis.</i><i>Ministers are provided with early warning of expenditure levels approaching appropriations during the year and of actual revenue levels that represent fiscal risks.</i><i>Baseline updates, including Supplementary Estimates, reflect government decisions.</i>

Control Criteria

3

Departmental forecasting models are maintained with changes formally approved.

Departmental forecasting models are maintained both within and across financial periods, with changes formally approved.

- } The department's approach to forecasting is clear and uses a reliable model that is commensurate with the nature and complexity of the revenue and expenditure items.*
- } Forecasting models comprise a structure of variables and underlying assumptions, rules controlling the interactions between variables and assumptions, and specific techniques and approaches to manipulate and interrogate input data in order to generate forecast data.*
- } The integrity of forecast data is founded on constancy in the forecast models used, which minimises the risk of unjustifiable inter and intra period manipulation of forecast results.*
- } Periodic reviews of the relevance and reliability of the various aspects of forecast models are undertaken to determine whether modifications and adjustments are required.*
- } Changes are introduced only where the purpose of the forecast data, government strategies and the efficiency of the mode have been considered, and the changes are approved by the responsible senior manager(s).*

27 Monitoring Crown Entity Performance

Scope

This element has three components:

- 1 Firstly, negotiation of the terms and conditions of output agreements and Statements of Intent (Sol) with Crown entities, including the specification of expected output delivery and ownership performance.
- 2 Secondly, monitoring the actual performance of Crown entities against those expectations, providing advice to Ministers on unresolved performance issues and risks, and options for addressing them and a department's role in the preparation of Crown entities annual reports to Parliament.
- 3 Thirdly, the department's role in purchasing goods and services on behalf of the Crown from non-Crown (third party) suppliers and preparation of reports to Parliament in respect of those non-departmental output classes to which section 32A of the Public Finance Act applies.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include outputs supplied that are not consistent with government policy objectives and expenditure that is excessive relative to output performance.

Implications

This element has implications for the Financial Statements of Government – Statement of Financial Performance (expenses) and the Statement of Financial Position (assets).

Control Criteria

The control criteria are designed to provide assurance that non-departmental output classes supplied by Crown entities and third party suppliers meet performance requirements and that expenditure is optimised within government policies and priorities.

Control Criteria	
1	<p>Accountability documents</p> <p>Accountability documents are in place with Crown entities within the Vote Minister's responsibility and in relation to non-departmental outputs purchased by Ministers from Crown entities and non-Crown suppliers.</p> <ul style="list-style-type: none">} <i>Review procedures provide assurance as to the existence and currency of accountability documents, and their consistency with appropriations, government policy and the Minister's priorities and decisions.</i>} <i>Sols reflect the respective Crown entity's (and Minister's) ownership performance undertakings to Parliament by specifying key objectives and performance targets relating to capability, risk management and financial management performance.</i>} <i>Output agreements specify the nature and performance dimensions of the outputs to be supplied. They include a description of the goods and services, their price, other performance measures and standards as well as procedures for assessing performance and amending expectations, and reporting requirements.</i>} <i>Output agreements with Crown entities reflect outputs supplied for both the Crown and under fees and levies.</i>

Control Criteria	
	<ul style="list-style-type: none"> } <i>Output agreements also identify how expected performance relates to the achievement of government objectives and statutory requirements.</i> } <i>The use of a contracts register assists with the management of contracts where there is a large number of third party suppliers.</i>
2	<p>Competitive tendering processes</p> <p>Competitive tendering processes are used unless there is a preferred output supplier identified in legislation, government policy or by the Minister.</p> <ul style="list-style-type: none"> } <i>Objective processes are used to identify the preferred supplier based on an assessment of delivery reputation, quality of service performance and price, against predetermined criteria and weightings.</i> } <i>Negotiation to obtain optimal terms and conditions occurs.</i> } <i>The basis for using a preferred supplier is approved and documented.</i>
3	<p>Payment processes</p> <p>Payments made to Crown entities and non-Crown suppliers are accurate and on time, consistent with the terms and conditions set out in the accountability documents and, where provided for in agreements, based on actual performance.</p> <ul style="list-style-type: none"> } <i>Authorisation and review procedures provide assurance that payments are made in accordance with payment schedules and performance expectations relating to output delivery and the terms and conditions applying to capital injections.</i> } <i>Where payment is based on actual performance, variances are addressed on a timely basis, with any penalties or sanctions applied or otherwise explicitly waived.</i>
4	<p>Monitoring performance</p> <p>Monitoring of Crown entity performance and the performance of non-Crown suppliers against the accountability documents is regular and ongoing, and the Minister is kept informed of significant performance risks.</p> <ul style="list-style-type: none"> } <i>Performance monitoring provides assurance as to the integrity and quality of service to enable timely intervention by the Minister or the department under the Minister's authority to achieve agreed performance.</i> } <i>Areas for improvement, performance variances and options for addressing them are discussed with the Crown entities and other suppliers through a range of mechanisms including regular meetings.</i> } <i>Early signalling to Ministers of unresolved performance issues and risks.</i> } <i>Risks to the Crown are regularly reviewed.</i>
5	<p>Service Performance Reporting</p> <p>Service Performance Reports are prepared for classes of outputs provided predominantly by non-Crown suppliers, where required.</p> <ul style="list-style-type: none"> } <i>Processes are in place to provide assurance that a service performance report to Parliament is prepared, as required under section 32A of the Public Finance Act 1989, for all non-departmental classes of outputs included in a schedule to an Appropriation Act.</i> } <i>A statement of liabilities, commitments and contingent liabilities incurred by the Crown arising from these classes of outputs is also prepared.</i> } <i>The department may prepare a separate or combined report where it administers more than one listed output class.</i>

28 Crown Revenue

Scope

This element covers the collection of revenue by a department on behalf of the Crown that may be levied under sovereign power, regulation or government policy.

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include the under collection of revenue and collection costs exceeding recovery levels.

Implications

This element has implications for the Estimates of Appropriations (Crown Revenue and Receipts) and the Financial Statements of Government – Statement of Financial Performance (revenue) and the Statement of Financial Position (assets).

Control Criteria

The control criteria are designed to provide assurance that revenue due is economically collected and accurately recorded.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and procedures exist for collecting, receipting and monitoring the administration of Crown revenue.</p> <ul style="list-style-type: none">} <i>The authority and rules for assessing and collecting Crown revenue (legislative and government policy) are identified and the basis for assessments is clear.</i>} <i>Operational policies and procedures provide assurance that expenditure is applied for intended purposes and that entitlements are accurately determined and accounted for, on a consistent basis.</i>} <i>Policies, procedures and departmental practices are reviewed and updated periodically to provide assurance that revenue due is economically collected and accurately recorded.</i>
2	<p>Assessment and receipts processing</p> <p>Assessments of Crown revenue payable and processing of receipts, including associated penalty or interest charges, are valid, complete and accurate.</p> <ul style="list-style-type: none">} <i>Processes for assessing sums payable are used to provide assurance as to the integrity of routine Crown revenue administration.</i>} <i>Non-standard and discretionary revenue assessments are relatively more susceptible to error and fraud and accordingly receive increased and independent scrutiny.</i>} <i>Procedures are in place to provide assurance that Crown revenue receipts are banked directly into the Crown account, with any misdirected receipts immediately cleared.</i>} <i>Procedures are also in place to provide assurance that receipts are accurately processed against individual payers' accounts, on a timely basis.</i>} <i>Periodic review of established assessment criteria and receipts occurs to provide assurance as to the continued validity of receipts and reliable audit methodologies, which include risk assessment procedures and corroborative diagnostics, are used.</i>} <i>The nature, extent and timing of audits are based on assessments of risk of error and fraud, materiality, benefit and cost considerations.</i>

Control Criteria	
3	<p>Follow-up procedures</p> <p>Follow-up procedures are in place to collect revenue based on unprocessed returns and resolve those subject to query or investigation in a timely way.</p> <ul style="list-style-type: none"> } <i>Where concerns are identified regarding unprocessed returns or assessments, arrears management and monitoring procedures are in place to minimise bad debt risk through identifying and addressing any processing bottlenecks.</i> } <i>Where concerns are identified regarding completed assessments and the likely existence of error or fraud, procedures are in place to minimise bad debt risk through both recovery and write-off actions.</i> } <i>Records provide sufficient detail as to the identity of the creditor, nature, amount, outstanding period and status of recovery actions to reliably assess provisioning requirements.</i>
4	<p>Prosecution activities</p> <p>Prosecution activities that balance legislative obligations, cost and other constraints are undertaken to recover long outstanding Crown revenue assessments.</p> <ul style="list-style-type: none"> } <i>Periodic review of the nature and status of long outstanding cases address the rationale and basis for continuing with prosecution activities.</i>

29 Crown Payments

Scope

This element covers the administration of payments by the Crown for which no or unspecified direct exchange of value is expected in return. The element excludes borrowing expenses, repayment of debt and payments for the purchase or development of capital assets, which are addressed as separate elements in this model (refer elements 14 and 15).

Key financial risks

The key financial risks arising from weaknesses in the operation of departmental processes and systems in this element include invalid entitlements, error in assessment, payment and recording, and non-recovery of overpayments.

Implications

This element has implications for the Estimates of Appropriations and the Financial Statements of Government – the Statement of Financial Performance (expenses) and the Statement of Financial Position (liabilities).

Control Criteria

The control criteria are designed to provide assurance that entitlements and payments are valid, accurate, complete and timely.

Control Criteria	
1	<p>Policies and procedures</p> <p>Policies and procedures exist for operationalising payment entitlement, accounting and monitoring of Crown expenditure.</p> <ul style="list-style-type: none"><i>The authority for making Crown payments (legislative, government policy or departmental discretion) is identified and the basis for the payments to be made is clear.</i><i>Operational policies and procedures provide assurance that expenditure is applied for intended purposes and that entitlements are accurately determined and accounted for, on a consistent basis.</i><i>Policies, procedures and departmental practices are reviewed and updated periodically to maintain consistency with government policies and Ministerial expectations.</i>
2	<p>Payment processing</p> <p>Processing of payments, including routine, discretionary and special payments, is valid, complete, accurate and timely.</p> <ul style="list-style-type: none"><i>Processes for assessing recipient eligibility and reviewing payments during the payment process are used to provide assurance as to the integrity of routine Crown payments.</i><i>Non-standard and discretionary payments are relatively more susceptible to error and fraud and accordingly receive increased and independent scrutiny.</i><i>Periodic review of established entitlements and payments occurs to provide assurance as to the continued validity of payments and reliable audit methodologies, which include risk assessment procedures and corroborative diagnostics, are used.</i><i>The nature, extent and timing of audits are based on assessments of risk of error and fraud, materiality, benefit and cost considerations.</i>

Control Criteria	
3	<p>Follow-up procedures</p> <p>Follow-up procedures are in place to recover overpayments and resolve unprocessed entitlements or claims and those subject to query or investigation in a timely way.</p> <ul style="list-style-type: none"> } <i>Where concerns are identified regarding unprocessed entitlements or claims, creditor management and monitoring procedures are in place to identify and address any processing bottlenecks.</i> } <i>Where concerns are identified regarding the ongoing eligibility of recipients and the likely existence of error or fraud, procedures are in place for both the recovery of overpayments and the termination of entitlements.</i> } <i>Records provide sufficient detail as to the identity of the debtor, nature, amount, outstanding period and status of recovery actions to reliably assess provisioning requirements.</i>
4	<p>Prosecution activities</p> <p>Prosecution activities that balance legislative obligations, cost and other constraints are undertaken to recover long outstanding overpayments.</p> <ul style="list-style-type: none"> } <i>Periodic review of the nature and status of long outstanding cases address the rationale and basis for continuing with prosecution activities.</i>