# Analysis of Responses: CIPFA TICK 2013

## 1 Do internal controls support the department's objectives?

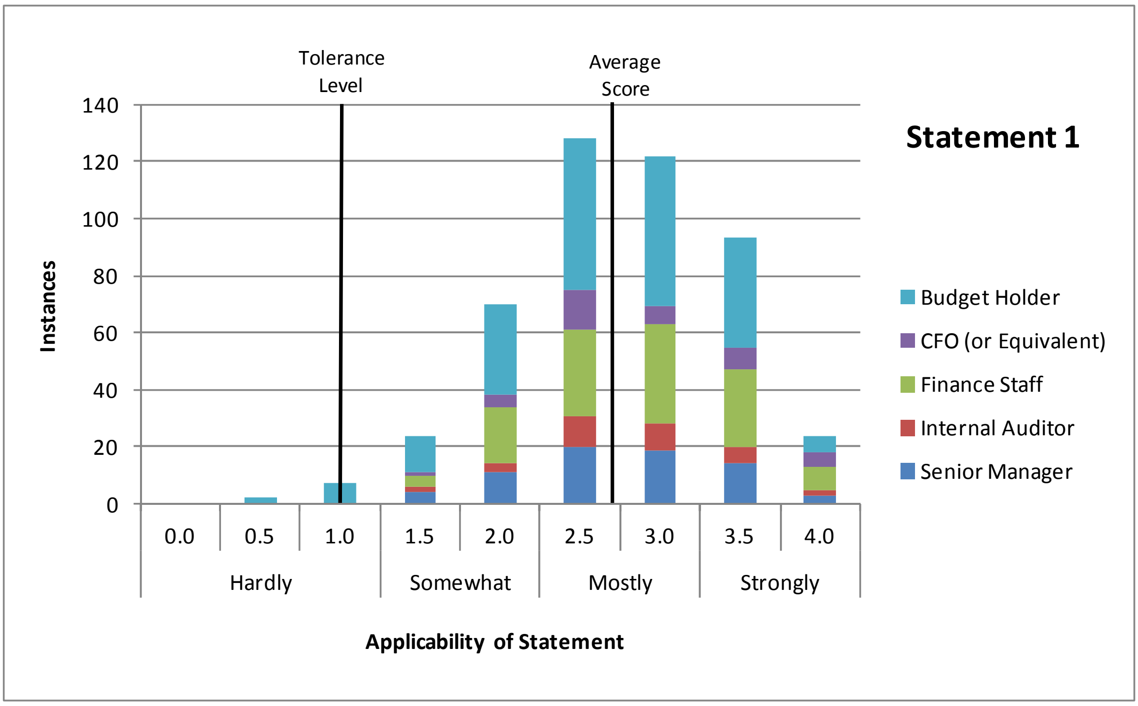
Internal control should be used to support departments in achieving their objectives by managing its risks, while complying with rules, regulations, and organisational policies.

Sustainable success depends on how well a department can integrate risk management and internal control into a wider governance system as an integral part of its overall activities and decision-making processes. A strong, integrated governance system is an integral part of managing a disciplined and controlled department. Effective integration can result in an enterprise-wide governance, risk management, and internal control system that:

- supports management in moving an organisation forward in a cohesive, integrated, and aligned manner to improve performance, while operating effectively, efficiently, ethically, and legally within established limits for risk-taking, and
- integrates and aligns activities and processes related to objective setting, planning, policies and procedures, culture, competence, implementation, performance measurement, monitoring, continuous improvement, and reporting.

Conversely, an excessive and exclusive focus on financial internal controls can distract management from ensuring that its operations or strategy are functioning as intended. Analyses of major failures frequently identify insufficiently controlled risks at the operational level that caused significant problems before any accountability documents could even be prepared.

The survey reports that internal controls "mostly" support departmental objectives, with an average score of 2.7, well above the Treasury minimum tolerance level.



A number of respondents acknowledged the importance of integration between objectives, risk management and internal controls.

*Risk management considered at a higher level including at strategic planning and through to Business Planning development stages*

*The Ministry has integrated risk management into its business planning, with specific requirements for project management.*

*Very regular testing of the Strategy against financially sound management with risks highlighted, discussed and mitigated at the appropriate level.*

However, there was a significant pattern of responses suggesting that there was a low level of maturity of development in this area, and that improvements are needed.

*Risk management is a known area for improvement and a new tool is now being introduced now that will link risks to departmental objectives.*

*It could be clearer how resources are allocated strategically to priorities/objectives.*

*I believe we have identified risks well but perhaps need more effort in clearly identifying the mitigation factors etc.*

*Our resource allocation practices could be stronger- we know we have capacity challenges with key technical resources over-subscribed when business plans are developed*

*Internal controls and risk management are still being formalised within the ministry*

A number of departments noted developments (both recent and planned) that seek to improve their identification and assessment of risk.

*Each team has their own risk register, monitoring and mitigating actions. The Ministry is working on forming a centralised register.*

*We are looking at planning practices and approaches to address this.*

*The Ministry is currently integrating business plans with budgeting, which will help to show how resources are used and how this contributes to our outcomes. This will also implement risk management practices by identifying risks as part of the business plan.*

*The organisation is currently in the process of reviewing some of the internal controls. I think the ones in place did support the risks that were seen as the highest in the past but over time as the organisation has undergone significant change these need to be rebalanced and that is underway*

*We are currently strengthening the connection between long-term risk and strategic objectives*

*Planning has become more targeted and risk management more visible. People are more focused on this throughout the organisation as is evidenced in the emails and planning tools. But this is not organisation wide yet I don't believe. Individuals do it as opposed to it being everyone.*

*We have recently refreshed our risk management framework and are in the process of improving management capability.*

*Our risk management framework has been under considerable change over the last 12 months, and is still to settle on a balance of focus on strategic verses operational risk.*

*We don't currently have an effective risk management system. Up until about June last year we regularly filled in risk registers which were discussed by leadership team and* *governance board but that fell away with changes in leadership structure. There are plans to put in place a new system so hopefully that will work*

*We are currently developing a new dashboard of internal controls and performance measures to take performance and risk measurement to the next level*

*We have just had an external consultant come in and review our risk management framework. His paper went to our senior management team this month. Implementing his recommendations will give us a 'yes' across the board to these questions.*

*We are currently in the process of refreshing our Risk Management approach - hence a number of these statements have been scored as 'partly' to reflect the level of progress.*

*It is important to note that the Department is doing a significant amount of work in the area of risk identification and mitigation. The updated risk policy is on line on the Department's Corrnet. This has not been well done, in the area within which I work, particularly well in the past.*

*Maturation of the framework is underway with learning and monitoring now being implemented after a complete refresh of the framework*

*... progressing to finalise an updated risk management system, implementing risk identification through our strategic planning process which all include monitoring/reporting functions*

Often survey participants noted that risk management and internal controls appeared to be partial or inconsistently carried out.

*A part of every managers role to do a risk assessment for all aspects of our work - however this can be informal. At an operational level it is strongest in financial and H&S areas.*

*The coverage of risks is not universal across the Ministry so in pockets there is sufficient understanding of risks and in others it is more informal so I do think the internal controls supports the departmental objectives but more detailed/formal tracking of risks would supplement this.*

*Internal controls appear to be focussed on reducing/preventing financial risks/misappropriation of public funds, but I've seen much less in terms of risk management on the policy/strategy front (ie, in terms of delivering on Ministry's strategic outcomes).*

*We have controls in place for our projects, but not to the same extent for our core work.*

*(We have) an established Organisational Risk Strategy and Policy but this is inconsistently applied across Districts and Service Groups. We are seeking to introduce a standard web-based risk management tool in 2013 to drive consistency in practice and enable reporting on risk patterns on a national basis*

Other concerns focussed on the departments' strategy and prioritisation processes.

*I think sometimes there is a little bit of confusion between the objectives in our strategic plan and the objectives set out in the purchase agreement. This then leads to the risk discussion and the links between the risks and objectives sometimes being weaker than ideal.*

*Risk management as part of the planning process is critical. As part of that having the right people at the planning table is often missing. This means things are missed in the planning and therefore unnecessary risks appear later in the project.*

*One of the biggest risks is resource allocation - that despite all the planning in the world you won't get the right resource when you need it (because something else is a higher priority). Resource allocation seems fairly ad hoc ...*

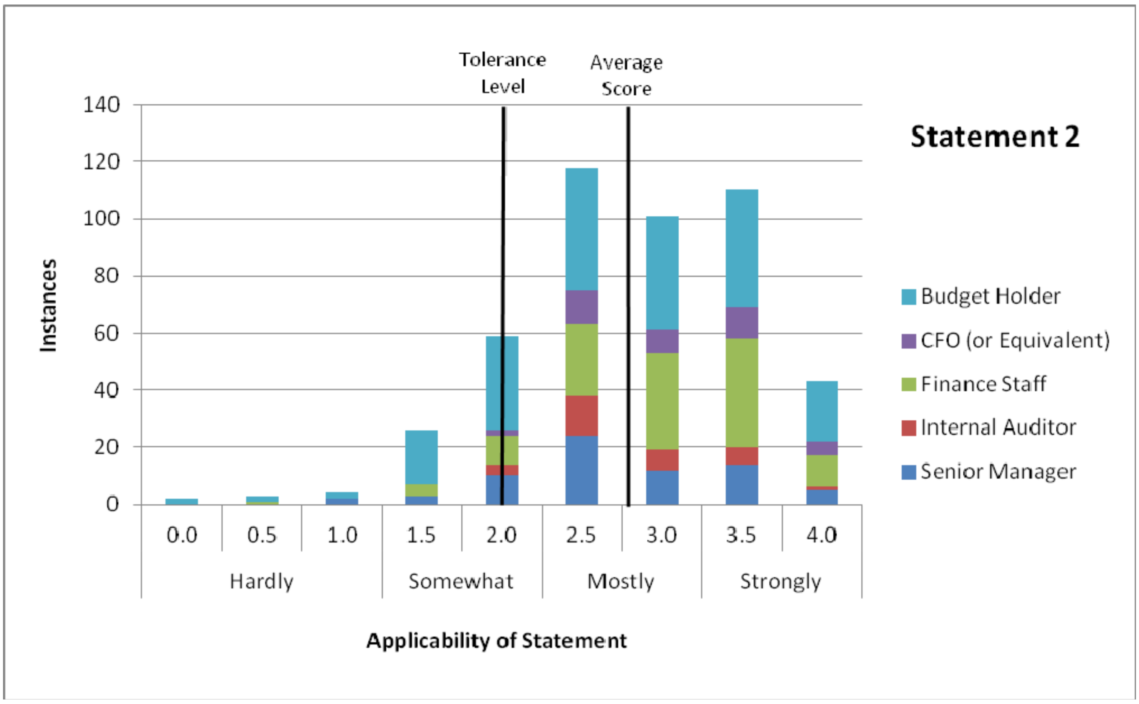
## 2 Do internal controls reflect roles and responsibilities?

Departments should determine the various roles and responsibilities with respect to internal control, including the management at all levels, employees, and internal and external assurance providers, as well as coordinating participants. Responsibilities for internal control are usually distributed among numerous groups:

- Senior Management assuming overall responsibility for the department's internal control strategy, policies, and system, and act accordingly. This group should define the risk management strategy, approve the criteria for internal control, and ensure that management has effectively undertaken its internal control responsibilities (ie, the oversight function).
- Finance staff, design, implement, maintain, monitor, evaluate, and report on the organisation's internal control system in accordance with risk strategy and policies on internal control as approved by the governing body.
- Budget holders are usually held accountable for proper understanding and execution of risk management and internal control within their span of authority.
- Internal auditors play an important role in monitoring and evaluating the effectiveness of the internal control system and conveying—independent of management—reassurance to the governing body. However, they should not assume responsibility for managing specific risks or for the effectiveness of controls.

In some departments, separate risk management functions exist. This function should enable broad risk management and internal control awareness across the organisation, rather than be an enforcer of compliance. Risk management staff can strengthen the risk management and control competence of governing bodies, management, and employees, but should not take over risk management and internal control responsibilities from line managers.

The survey reports that internal controls internal controls "mostly" reflect roles and responsibilities, with an average score of 2.8, above the Treasury minimum tolerance level. See chart below.



Updating risk management processes and responsibilities is a burden for departments that have been restructured recently.

*With the high level of change, restructuring and staff attrition across Finance and the Department in general, awareness of managers on contact details and when to contact people appear to have been diluted.*

*A transformation programme is underway to ensure Finance capability is improved to support and lead on financial management*

*The Finance and Planning team was restructured in April 2012, which resulted in the Accountant's role being split into two - one Financial Accountant and one Business Analyst. The Business Analyst incorporates the management accounting side as well as strategic planning. The Corporate Planner position was restructured. This took time for managers to get used to and to know who (either Financial Accountant or Business Analyst) to contact about certain things. But managers now seem to understand who to contact and when.*

*Contact points and key resources are being re-validated following internal change processes, resources (ie, capacity) are not necessarily well aligned with risk responsibilities of unit managers. In my unit the finance function is very tightly defined and managed, to the extent that recent Audit suggested less transaction-intensive separation of duties could be trialled without material loss of risk oversight (through slightly amended management processes). We are giving this a go.*

*Again, with the recent changes to the organisation there has been a little bit of a loss of understanding of roles and responsibilities. There is work underway to assist in getting this bedded in but there is also an element of needing a bit of time for people to understand who does what.*

*Finance is undergoing reorganisation at the moment*

*We have recently had a restructure in National Office - with a change of personnel, and shifting around of responsibilities - this is still bedding in.*

*For the most part this statement is correct - however the level of awareness may vary following a number of internal restructures. Therefore while Finance staff may have a high level of awareness - others may not, and therefore for the most part will direct questions etc to their previous contact and rely on them to direct them to the right person.*

*Finance has a clear statement of roles and responsibilities of its key staff but recent restructure means that this is not yet clear to all managers across the business*

*New team being put in place and responsibilities are still being clarified for users.*

*Roles are all sorted in Finance Branch but updated processes are not. They have focussed on structure, but not much else (at this stage)"*

*Financial services has been centralised recently and not all managers are fully conversant with the new model.*

*The roles and responsibilities between the Finance Manager and the Finance Assistant are operating effectively and are clearly defined within the finance area but there is not a high level of awareness among Managers about who to contact and when. There is a corporate review being undertaken at this time.*

*Significant change has occurred within Finance and I am unsure who is accountable for what. The “processing staff” within Finance are known and provide a good service to branches.*

*Managers know to go to their Finance Managers about finance matters. There is an exercise being undertaken to better define roles and responsibilities within Finance since the merger has occurred.*

There is also a resourcing issue, mainly for smaller departments

*Needs to be kept in context that we have 3.5 core finance staff and one risk manager*

*As a small Ministry, there are not the resources (especially personnel time) to develop and maintain risk management arrangements and take action - both in 'corporate' and in the rest of the organisation. This is a deliberate decision not to resource this (and allocate resources elsewhere) as the majority of the work is considered low risk.*

*The office is small and has not been well resourced for some years but has been subject to significant growth in work expectations. Additional resources have been secured for the coming year and a review of Corporate Services provided is underway that will deliver greater clarity of roles and responsibilities and awareness among managers.*

*Some plans include mitigations and responsible individuals but sometimes it is difficult to resource effectively. Yes we are very aware in the region of our finance people and their roles.*

Otherwise, there is a general level of maturity in establishment of roles and responsibilities.

*Have clear delegations. Accountability is defined by delegation handbook. Improvements are always being looked at.*

*Not everything is allocated to a named person, they are more generally assigned to an area. In just about all cases, it is clear who has accountability*

*Action plans are developed in response to different risks and managed by individuals, with regular reporting to the leadership team. Strong job description roles and responsibilities help to facilitate interaction with managers across (the department).*

*I have seen risk management documentation for strategic risks, programme risks and (other) risks.*

*(The department) uses a workforce strategy and its 4 year plan to guide the allocation of resourcing (and all national managers take responsibility over the stewardship of actions and resources. Individual responsibilities for risk/quality management are captured in documented procedures, project plans, and unit-based business plans.*

*We do have is clear responsibilities for individual cost centres and who owns them. If a ('named resource plan') list did exist it would be perpetually be changed on a daily basis and would serve little purpose in my opinion.*

*I have a clear understanding of the levels of responsibility as do my senior managers evidenced by sound control*

*Mature environment for risk management*

*Manual of Financial Procedures & Internal Controls sets out financial delegations and levels applicable.*

*As part of our overall set of internal controls, we have clearly defined roles and responsibilities. People know who to contact and when, and when contact is made, we received prompt and expert support.*

*I see the finance managers and other finance staff around the office ie, they are proactive and don't just wait for managers to contact them with issues. They come to business unit* *meetings regularly. I would be very surprised if any manager somehow doesn't know who in Finance to contact and when.*

*The finance staff I work with are great. They talk good project planning and management in helping with budget. Let the planning - what we will deliver and how we will deliver it - determine the budget. They are transparent with how budget works, where the money is, how it is tracking, etc. Regular conversations about budget. Very helpful."*

But there are exceptions, with some of those exceptions apparently arising from a lack of communication.

*Some areas are mature (eg, IT risks) however roles of finance not currently clearly delineated*

*"Project plans include an assessment of risks, and for larger projects they are actively managed with named individuals.  But for many projects, especially smaller projects, this issue often gets little attention.*

*It is not always clear who you need to deal with within finance depending on the issue. The messages as to who does not are not well communicated.*

*Responsibility for operational financial activities well defined for directorate contact, but upper level roles and responsibilities not well communicated.*

*"Projects have named people responsible for managing the risks for that project. Projects are aligned to a BPS, Ministry priority, outcome or target. Projects have an A3 strategy but from here it lacks planning, actions, responsibility. It seems that many people in the Ministry lack the 'how to...' in planning. This creates big risk in delivering.*

*The Finance Team monitors my Team's spending, but I'm not aware of any other Teams even having budgets to be monitored?  I think mine is the only team with a budget - which we keep well within, by the way!*

*I believe the Ministry would benefit from a clear explanation of the finance structure including advice on who to contact when.  I don't believe it is realistic for all queries to go through dedicated finance managers.  If ... staff understand the structure then they can go to the appropriate people for help/advice straight away.*

*The changes to finance and business management roles do not always make things clear. We haven't had single meeting with or communication from the new manager.*

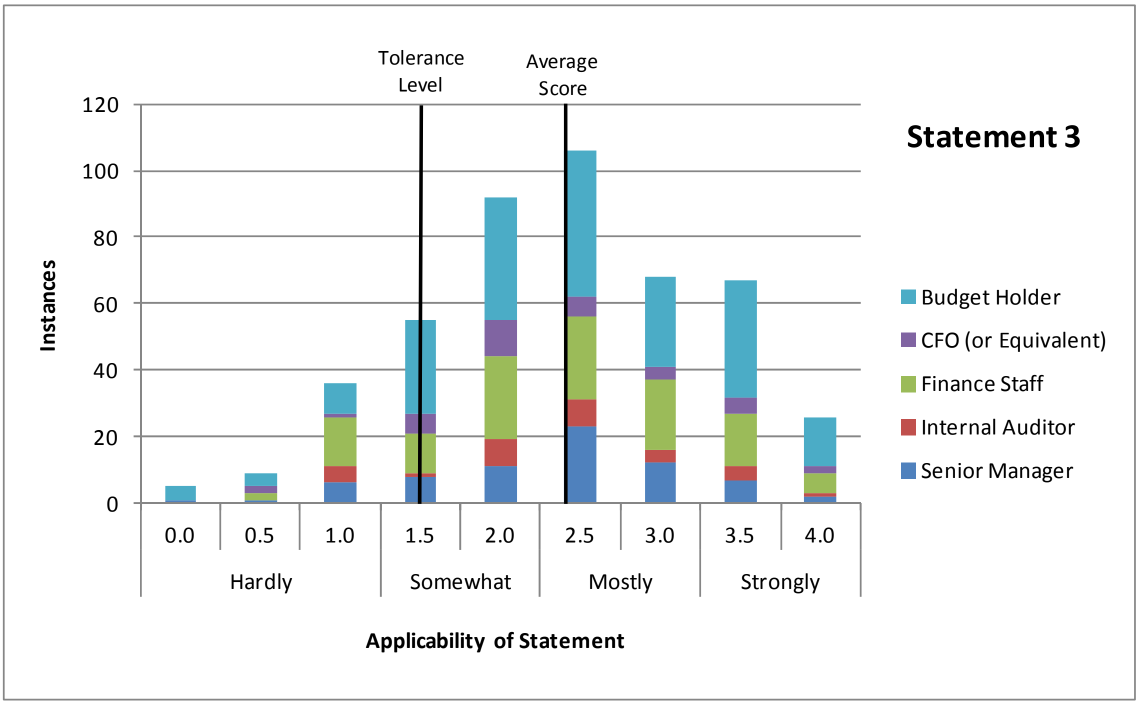
*Roles and responsibilities of finance staff may be clear to them, but they aren't to the business. This leads to confusion and sometime contradictory advice being received*

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

Departments should link achievement of the organisation’s internal control objectives to individual performance objectives. Each person within the organisation should be held accountable for the achievement of assigned internal control objectives.

It is important that the department ensures that those who are responsible for each risk are maintaining those risks within established limits for risk taking, as they may be inclined to choose their own risk limits over those of the department. Because achieving the department’s objectives and maintaining effective controls are linked, this should be recognised in the department’s process of performance assessment.

The survey reports that achievement of internal control objectives is “mostly” linked to individuals' performance objectives, with an average score of 2.4, above the Treasury minimum tolerance level. See chart below.




Internal control objectives are only moderately linked to individuals’ performance objectives:

> *Finance Management and targets make up a small part of my performance objectives (1 out of 8 sections). Service Delivery aspects of delivery IT to the business have a higher weighting. However, with ever deceasing budgets there is considerable effort placed into VFM and squeezing supplier margins.*
>
> *While no “competencies”, there are targets around managing within budget. I believe that the level of operational competency for budget managers could be improved (eg accruals, circulate audit findings etc.)*
>
> *The organisation has a number of controls in place but I don't believe these are always necessarily followed through in performance appraisals across the organisation, I assume that they are if finance is the sole focus of the role.*
>
> *Nor have I seen a requirement that Managers are mandatorily competent in Financial interpretation of reports or financial outcomes.*

*Financial competencies are not one of the core areas for managers even though most managers have some responsible for managing a cost centre budget. I have never seen any strong evidence that there is much accountability for financial outcomes*

*Business managers do not have financial targets linked to their performance management and are not held accountable for delivery of performance or financial outcomes.*

*There is only a small section of the Managers' appraisal forms dedicated to Financial Controls and Risk Management. Level Four Managers are only implementers of Risk Management practices not originators of issues.*

*(The department) has a performance management process that incorporates competencies specific to the role. This guides performance discussions between management/staff.*

*I haven't been here long enough to see what I am to be held accountable for, though financial management is in the Manager job description*

*"We are a small, independent office of parliament. Financial responsibility is shared among the Senior Management Team (SMT) with all major decisions going before SMT meetings for approval. We have clearly defined delegations for expenditure approval and payment authorisation. However, due to the small size of the office we do not link financial performance with individual staff performance appraisals as most financial decisions are made on a group basis by SMT.*

*While we are expected to be competent financial managers, senior managers also understand that sometimes work programmes need to accommodate unforeseen demands. Staying within or exceeding budget are not necessarily signs of either good or poor management*

This is an area some departments are working on, and is particularly an issue for recently restructured departments:

*The teams are in the process of adding financial competencies to performance development plans.*

*Performance management system is seen as not being effective and is being revamped*

*(The Department) is currently developing and implementing a new performance management framework which will include competencies and measures in relation to performance and financial outcomes including VFM where applicable.*

*The office's restructuring has led to the appointment of managers with staff responsibilities and delegations provided in support of the work expected of them and their teams. KPI's based on organisational performance expectations to be delivered at individual level are only now being developed.*

*The performance management framework is under development. Internal control objectives existed in the old Department environment, but I can't comment on the new process as yet.*

*(The Department) is forming - while there are clear delegations in place - linked to roles, a department-wide performance appraisal system is in design - currently the performance appraisal process/ procedures etc is linked to what former agency the manager/ staff member was from*

Value for Money is a prevalent objective, but it is not easily measured and this has undermined accountability.

*If decisions are made that are not value for money it is a) hard to fully assess as while they may not look VfM there could be other reasons and b) I am not aware if consequences occur for non-VfM decisions*

*Value for money is a subjective concept but managers know their actions have to be able to stand up to public scrutiny.*

*Most staff are aware of the need to extract the most value out of a procurement contract, but some are better than others in extracting these values. Eg, a recent change to mobile phone service provider has the potential to reduce annual mobile costs by close to 50%.*

*Performance is linked to pay. VfM is not the sole criteria for decisions. We spend for best value.*

*I don't think the accountabilities for value for money are at all clear. We seem to be concerned with financial prudence but it isn't linked to the overall outcomes we seek .*

*Activity based costing is limited so it is hard to have full accountability for value for money.*

*Value for money performance measures are almost non-existent.*

*There is a thorough procurement policy. The Legal team spends time advising staff of government procurement policies/requirements to tender/value for money, and also communicating this with staff through the intranet/inductions etc.*

*We could be stronger in our business case and value for money assessment of activity. These disciplines are building but don't uniformly cascade down to the individual level. General Managers do have good oversight of financial performance of their areas.*

*Believe value for money aspect and accountability link is present for some decisions, particularly project/programme decisions, but probably not explicitly for all decisions made*

*I haven't seen much evidence to suggest that we are being held accountable for the value for money implications of our decisions (unless we are unable to keep within approved budgets in foreseen circumstances). Devolution of authority and responsibility to managers within the business will help with this, and provide incentives - within agreed parameters - for us to extract maximum value for money on the understanding that we can redeploy savings to other parts of our business.*

*"This is a really good question. One I think we need to include in our performance appraisals. For example, with the team I manage we can talk and show cost effectiveness eg, the average $xx per target for the team. We can also show it at an individual level. This is one performance measure and should not be considered as the only one when determining how well a manager/team individual is doing/has done. What it allows us to do (if everyone had a cost effectiveness measure) is how to determine what projects to stop, start, do different quite quickly and easily. It takes away the uncertainty of value for money judgements we make without a cost effectiveness measure. I say we do more of this."*

*" V4M-Are at a regional level not sure the same occurs Nationally.*
*Value for money is a guiding principal in the office and is incorporated into the office's Procurement Policy.*

*Senior management discuss all major expenditure at regular meetings. A range of All of Government Contracts supported where these contribute to value for money purchasing relevant to a small organisation.*

*Value for money would be determined at a local level & whilst I suspect it isn't specifically mentioned in their appraisal, my experience is managers know they have a limited budget so by default always try to get best VFM*

And apparently contributed to a widespread lack of meaningful consequences for non-performance:

*Do have a robust appraisal system, however my observation is the weakness is in the 'meaningful consequences for the appraisal' ie, there are no real consequences for poor performance. Although the department promotes excellence in leadership there is no meaningful incentive or reward to do so.*

*Appraisals will include a review of financial performance, but consequences for none achievement are not obviously apparent, though this would be between the manager & budget manager.*

*Consequences are not visible*

*In reviewing (generally) decisions and financial impacts for the Department, esp. in terms of projects I have never seen or heard of Managers being held accountable - from a middle to senior level - at DIA. Very little is done to 'post review' projects to ensure a positive outcome or one that returned the benefits. NPV and ROI are seldom revisited after business case approval irrespective of change requests and monetary / budget changes.*

*I have certainly never seen, heard, or noted any consequences as a result of negative outcomes.*

*The achievement of internal control objectives is in everyone's performance objectives however there seems to be few consequences/little accountability not achieving internal control objectives.*

*If a manager was hopeless at finance they would be held accountable. Accountability is slowly improving, but I think it could go further.*

*We don't do the meaningful consequences thing at all well. There are often differing consequences depending upon where one fits in the world. I'm sure we get value for money, and mostly do a great job. However I can't remember when we held a conversation to make sure we're all on the same page or indeed understand what the consequences are for failure.*

*My previous role had much tighter financial accountabilities in the performance framework.*

*Managers are held accountable, however I would suggest that the consequences in the appraisal scheme are very light and not always enforced*

*I am not sure if all managers are held accountable for performance and financial outcomes or whether they are held accountable for value for money implications. Sometimes it would appear not.*

*There are pockets of the organisation where this is done very well but gaps in others and inconsistency across business groups. We are working towards a 'carrot' rather than a 'stick' approach to performance (incl. risk and financial)management and have made some excellent inroads in the service delivery groups in the past few months.*

*Consequences in the appraisal process vary dependent on Mil posting vs Civilian appointment. Mil personnel may not be in the role at the time of the full implications of VfM being known however this will be reflected in their ongoing appraisal and review by the SAB etc*

*Financial responsibility is an important part of our performance management regime. We could do better in holding people to account as part of this regime (and financial accountability is a subset of this).*

*That's the problem - one Team (mine) exercise very good control over its budget whereas other managers seem to take no steps whatsoever to control spending, particularly where travel is concerned. Thus my Teams savings simply get absorbed by other areas lack of effort to control spending, which is damned annoying.*

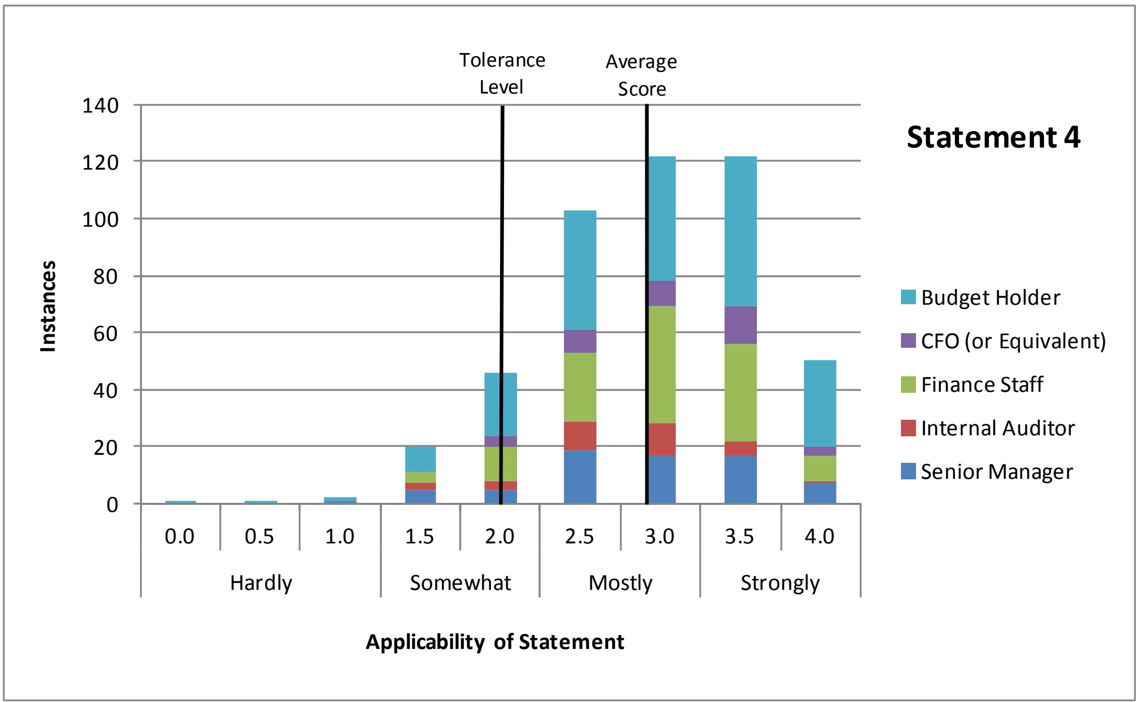
## 4 There is sufficient competency in fulfilling internal control responsibilities

Department staff should be sufficiently competent to fulfil the internal control responsibilities associated with their roles.

Competence in this respect means:

- having sufficient understanding of how changes in the department's objectives, external and internal environment, strategy, activities, processes, and systems affect its exposure to risk
- knowing how risks can be treated with appropriate controls, in line with the department's risk management strategy and policies on internal control
- knowing the principles of the segregation of duties to ensure that incompatible duties are properly segregated, so that no individual has total control over a transaction
- being able to implement and apply controls, monitor their effectiveness, and deal with any insufficiently covered risks, as well as with possible control weaknesses or failures
- having sufficient capabilities available to evaluate and improve individual controls, and
- being able to execute or review the evaluation and improvement of the organisation's internal control system.

The survey reports that there is "mostly" sufficient competency in fulfilling internal control responsibilities support departmental objectives, with an average score of 2.9, well above the Treasury minimum tolerance level. See chart below.



There was a fairly widespread lack of knowledge of financial management competency frameworks being applied.

> *Not sure of finance people qualifications, but there are clear job descriptions and code of conduct is taken seriously*

> *I'm not aware of a formal financial competency framework, though budget holders do receive training & support from finance & PMS service roles*

> *Although there is no financial competency framework, all managers are required to attend induction in the financial controls of the Ministry, and specific financial competencies are included in job descriptions.*

> *Job specifications are generally broad. Ability to manage budgets is not yet a pre-requisite of a management position (that I am aware of)*

In a number of departments there were affirmations of competency.

> *The Finance Unit hold the requisite qualifications. Financial management competencies are also prevalent in senior management positions/descriptions. ERO has a Reviewer code of conduct (with high awareness) that it uses in addition to the State Sector's code of integrity and conduct. Regular discussions about the codes are encouraged.*

> *I feel this is a strength within this department*

> *I checked a sample of finance job descriptions and they all have a requirement for recognised professional skills, knowledge and competencies. All staff, including senior management, go through an induction process with standard components on codes of conduct. All my testing over various reviews indicates compliance is high.*

> *In my experience there is a high level of competence at the Business Manager level and I am very satisfied with the level of support I receive. Managers that are responsible for overseeing the budget spends may not have financial qualifications, but there is an expectation that they work in partnership with Business Services Managers who bring the subject matter expertise to the table.*

> *Very strong understanding of codes of conduct and appropriate risk mitigation and decision making, including perceptions of decisions and actions. Particularly applied to compliance with travel and accommodation policies, reimbursements, gift register, managers discuss and model appropriate conduct with staff. We have clear job descriptions for people in financial management roles, and these are used to select and develop incumbents*

A few respondents referred to centrally-led initiatives (BASS and Optimised Finance) in making assessments in this area.

> *Optimise Finance may help with this re capability/competency expectations.*

> *Finance performance is measured against BASS historical and peer statistics, and against monthly performance statistics for the Finance function(s).*

However, some responses indicated that levels of competency vary.

> *The roles specify the need for the competency. In roles where they are the core competency for the role (finance, procurement etc...) they are definitely present but where it is part of the role (line manager etc..) it is not quite so often present.*

> *I think management roles which have a component of financial management are given support and advice but there is insufficient training with the right information and at the right pitch.*

*There is mention of financial skills/controls etc in JDs. However it is not assessed in (or do not know how to assess) in the interview process. Training in the Ministry way would be good in the first month.*

*While I think people are aware of codes and compliance there are still big errors. I am not sure if it is a culture, a 'it's not my money' attitude*

*I do not have an in-depth knowledge of all senior managers but note that some do not behave in a manner befitting of our code of conduct. Across the organisation it is variable - these competencies sit in the job descriptions but people are not always employed that have these competencies.*

*Mixed bunch - legacy persons hanging on to their jobs, and new blood well qualified.*

*The Finance function capability has been improved through recruitment of skilled accountants at the Manager level however there is still a skill gap at the senior accountant level.*

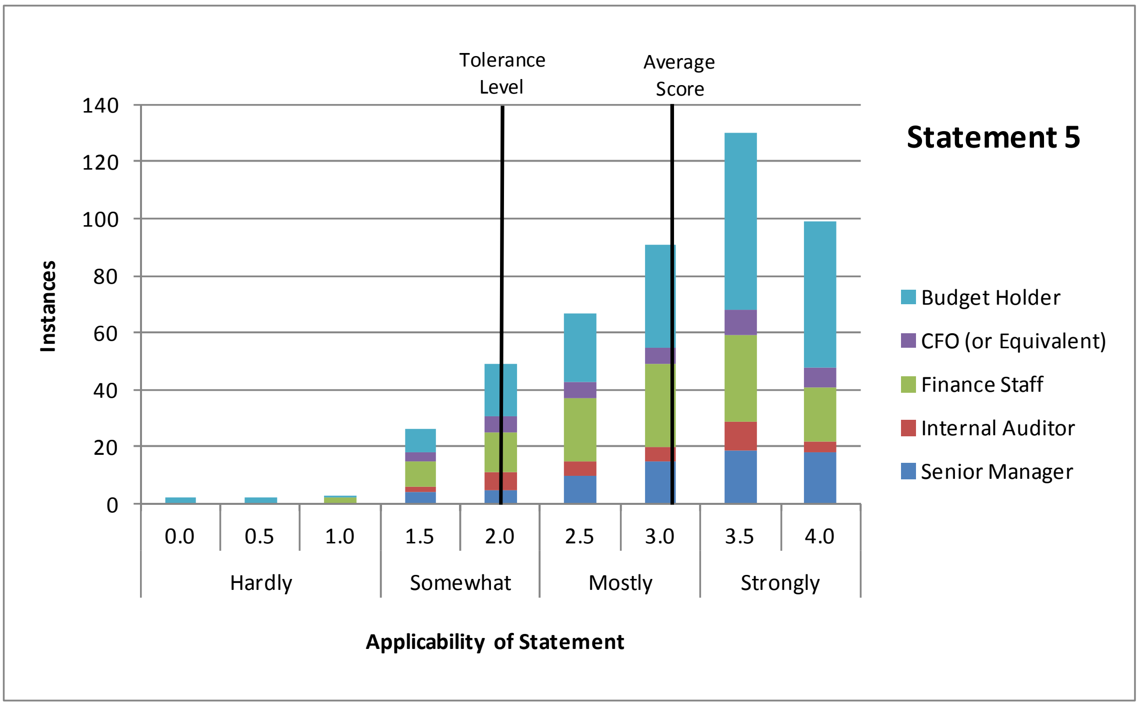
## 5 The "tone at the top" motivates staff to adhere to internal control policies

The chief executive, the senior management group and management generally should foster an organisational culture that motivates members of the department to act in line with risk management strategy and policies on internal control set to achieve the department's objectives. The tone and action at the top are critical in this respect.

The "tone at the top," the culture, and the ethical framework of the department are essential to an effective internal control system. The chief executive and the senior management group alike need to lead by example with respect to good governance, risk management, and internal control. For example, if senior management appears unconcerned with risk management and internal control, then employees down the line will be more inclined to feel that appropriate management of risk through effective controls is not a priority.

While a code of conduct can support and enable the desired types of employee behaviour, the principles in such codes need to be continuously reinforced principles in word and deed, with training programs, model behaviour, and by taking actions in response to violations.

The survey reports that the "tone at the top" "mostly" motivates staff to adhere to internal control policies support departmental objectives, with an average score of 3.1, above the Treasury minimum tolerance level.  See chart below.




Senior Management Teams lacked consistent, and joined up leadership on risk management and internal control was not being consistently reinforced.

*Believe that involvement of senior management teams in determining risks and responses may be variable between business groups*

*The Department acknowledges that times are tough, especially financially, and everyone is tightening their belts, yet we are to spend $500K building new Deputy CE Offices while we cram more staff into reduced square metres.*

*It is a bit of a mixed bag, some are highly motivated to keep on top of the financial situation and manage risk effectively, for others it seems to be a bit of an afterthought.*

*From my perspective I don't think senior management have a holistic and joined up approach to organisation wide financial management. I think within each of the branches that leaders look to address key financial risks and set a tone to their staff but this does not apply in their workings as a team*

*I don't think it is routinely discussed across all management levels.*

*Only in the last 6 months has leadership begun to step up in this area. Last year was the first year our Deputy Secretary had had a performance appraisal! Accountability has not been a strength and still has a long way to go.*

*Depends on the senior manager.*

*Two divisions - those that do, and those that don't - no in between*

*There are some mixed messages sent across the organisation by individuals eg operating in an environment of permanent fiscal constraint while a 'finance is not important' and a 'she'll be right' attitude to budgets is exhibited.*

*Some in this canoe are paddling in different directions, which makes 'making an effort to do the right thing and save taxpayers' money, all the more frustrating for my Team.*

*Senior managers too far removed to know*

A number of respondents saw expressed optimism for improvements.

*With recent structural changes in the Corporate space new performance reporting (financial and non financial) is being presented to and discussed at the executive level. This is a significant change from previous practice but has only been implemented for the past 3 months so more improvement to come.*

*The inclusion of the CFO in the executive leadership team will strengthen overall financial risk management.*

*We are in the midst of a change to the senior leadership so it is difficult to know about individual senior leaders behaviours at this stage. I would hope and expect they role model and know how to make the best use of the expertise available to them should they need it.*

*Senior management team is still moving from a 'monitoring' to actively 'determining responses' approach to key risks. This is partly related to changes to risk management frameworks still being finalised, and changes in CEs.*

*As a new CE I am working with the behaviours of my leadership team*

*The senior leadership are aware of how finance impacts on strategy and is sensitive to the management of finance as a tool to achieving our objectives. There are still some old practices to remove during the finance branch reorganisation that will make senior commanders more attuned.*

Others however rated management highly in this area.

*Senior management leads by example in most areas. They own the ministry's strategic risks (linked to operational risks), and would be involved in risk responses if particular operational risks are found to have a major impact on the rating of the strategic risks through an escalation process.*

*This has not always been the case - but I would agree of current senior management. SLT discuss finance regularly. They are heavily involved in the four-year plan process as well as collective ownership of the level of risk the Ministry takes on, for example with insurance levels etc.*

*This is very strongly modelled by the Deputy Commissioner Operations who has the appropriate level of finance representation (mostly the GM: Finance) at all meetings of the OPEC Group to ensure that Strategy is matched to finance and the implications heavily weighted.*

*We have a senior leadership team that understands role modelling. They are highly tuned to risk management and involved in policy setting and assessment of risks.*

## 6 Internal controls respond to risks

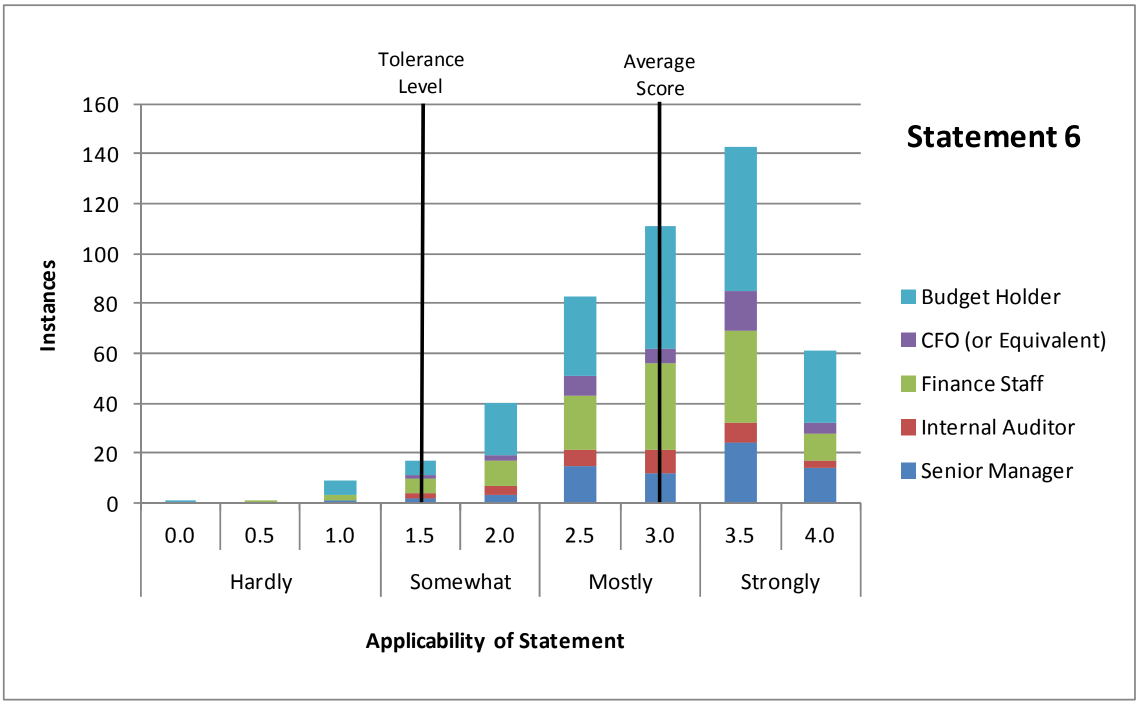
Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

Controls are a means to an end—the effective management of risks, enabling the department to achieve its objectives. Before designing, implementing, applying, or assessing a control, the first question should be what risk or combination of risks the control is supposed to modify.

Departments should mandate that all strategic and operational decision making is supported by risk management and the subsequent implementation of appropriate controls. All important deviations from the intended outcome need to be assessed.

Departments should be aware that various risks can create an aggregated effect of uncertainty on the achievement of their objectives. Therefore, risks should be assessed and controls designed taking common causes and synergies into account, including escalation and domino consequences.

The survey reports that internal controls "mostly" respond to risks, with an average score of 3.0, above the Treasury minimum tolerance level. See chart below.




A few respondents suggested that internal controls were overly reactive to risks.

> *Tends to be reactive and over-reactive to issues that results in swings and roundabouts and staff uncertainty.*
>
> *We are good at reactivity, less good at proactivity.*

More, however, pointed to regular or recent reviews to ensure that internal controls were relevant.

> *There has been a lot of reviews into controls and roles and these are still being updated and improvements being made*
>
> *The Department has an internal audit team who undertake regular reviews and investigations.*

*The controls, policies, and procedures are being reviewed currently as we look to outsource / disestablish 45% of Finance staff;*

*We have an internal audit team which looks over procedures on a regular basis to ensure all risks are managed well.*

*Most of the current focus in the organisation is on creating more effective and efficient systems, processes and ways of doing things. So to a certain extent this work involves looking at internal control procedures although on occasions these changes don't necessarily enhance the level of control in the organisation.*

*Departmental policies are updated annually or two-yearly. Internal control procedures are specifically included in the design of new systems*
*we regularly review controls and escalate risks, particularly of late and yes we have had fraud training, etc.*

*The Department is currently reviewing all Internal Control procedures*

A few highlighted areas where internal control procedures could be updated to be more relevant to current risks.

*it would benefit the organisation if (there was a) process around assessing if controls are still relevant. the fraud prevention strategies are maturing and this will also contribute to improvement around controls and the required linkages*

*At Post the Internal Control Certificate does not seem to have been critically appraised for materiality, relevance, and transaction cost of compliance in many years. Could do with a close look*

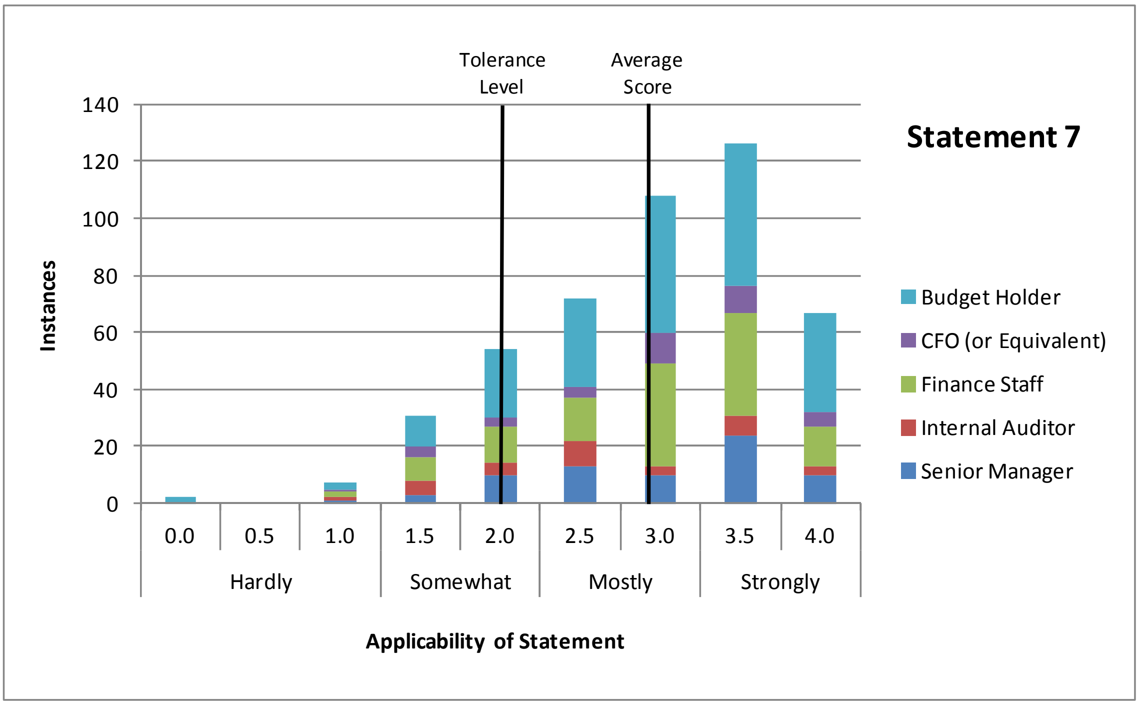
*Some internal controls are not relevant to specific service lines and the tool itself is not easy to customise. Some controls are historic and the actual risk has now been mitigated. Would like to see the internal controls reviewed.*

## 7 Regular communication regarding the internal control system takes place

Internal controls can only work effectively when they, together with the risks they are supposed to modify, are clearly understood by those involved. Therefore, controls should be documented and communicated.

This is only the beginning; risk management and internal control should also be embedded into the way people work. Therefore, management should ensure, through active communication and discussion, that what is written in a policy document is understood widely across the organisation and applied in practice by employees.

The survey reports that regular communication regarding the internal control system "mostly" takes place, with an average score of 2.9, above the Treasury minimum tolerance level. See chart below.




The comments on this principle were fairly mixed. Several respondents noted specific efforts to communicate controls and responsibilities.

> *A robust business assurance and financial audits are run across the department on a representation basis and continual scan.*

> *Controls and flow of processes are systems controlled and users are trained on these and their responsibilities*

> *We have not only awareness training but also on-line manuals and instructions as well as reminder emails around key dates and especially around year end procedures*

> *Policies and practices in this area have been recently reviewed and communicated to and through management teams. There is always a need for constant communication especially around whistleblower type practices.*

> *Reinforced during management changeovers with the issuance of a new Accountability Letter outlining expectations, resolutions and escalation paths.*

> *The Fraud Management Policy and Whistleblowing Policy were last reviewed in March 2012 following an Internal Audit Fraud Review. The reviews have included expanding the*

*list of people to whom a protected disclosure can be made. The induction programme, which all new starters complete, includes coverage of the codes of conduct, security requirements, and relevant policies.*

*All staff with delegations, including financial, are required to sign an acknowledgement that they are aware of their responsibilities. There is a large Risk & Assurance team in the Department which monitors and assesses compliance with policy and procedure through a programme of internal audit activity and reviews. There is a dedicated programme of awareness for fraud, an anonymous Fraud phone line, regular briefings, and communications as well as seminars for staff. There is a whistleblower's policy in place, and managers are provided with training as required.*

Others affirmed that it was a matter of common sense to seek clarification or escalate issues to a manager or supervisor.

*There will always be the exception, but generally staff are aware of processes or know who to ask if they are not sure.*

*I do not know other than the common sense to escalate to senior management any suspicions.*

*Fairly clear if any concerns escalate incl to internal auditor*

*I assume that if a staff member suspects misconduct, fraud or corruption they would let their manager know, or their senior manager. I am unsure if there is a formal process to follow.*

*The budget managers are very clear about their responsibilities and know to discuss and elevate when necessary. They too receive regular reporting*

*This is all pretty clear stuff, a yes/no answer to is something fraud or not and what to do in a situation. It's all pretty well communicated and easy to communicate within any organisation.*

A number of comments queried whether communication practices were uniformly well applied within the department.

*I don't know about financial processing staff in all areas of the Department.*

*The staff in my team are aware of financial policies that they need to know and follow to keep them, the team and the ministry safe. They know what they are required to do (their role) in the accountability processes and chain. they are managed and questioned when their phone bill or photocopying bill is high. This is not usual practice in the rest of the Ministry.*

*At a regional level anyway*

*I couldn't tell you if all staff involved in financial processes are aware of their role.*

Others again indicated that this was an area for improvement.

*Could benefit from a wider sample/application of the business assurance process - having been on the receiving end of one recently as a manager I found it very useful. Reporting of fraud, misconduct and corruption can be improved.*

*There has not been any regular updating or recent awareness campaigns to my knowledge. Application of some controls is not monitored (eg cellphone accounts)*
*there is room for improvement around the knowledge of policies and procedures relating to this.*

*The organisation has a limited focus on ensuring compliance with policy and procedures - although this probably partly reflects the fact that the department has relatively few formally promulgated financial policies and procedures.*

*This is not regularly discussed with staff.*

*Compliance and monitoring needs improvement*

*Guides and tools are available on the intranet for staff to find and use, some staff may not know that these tools etc exist.*

*Some communication occurs around regular processes but I'm not sure how far this extends. The R&A area monitor and spot check for policy compliance. I assume staff would know what to do if they suspect fraud etc? There is no doubt a (policy) on it.*

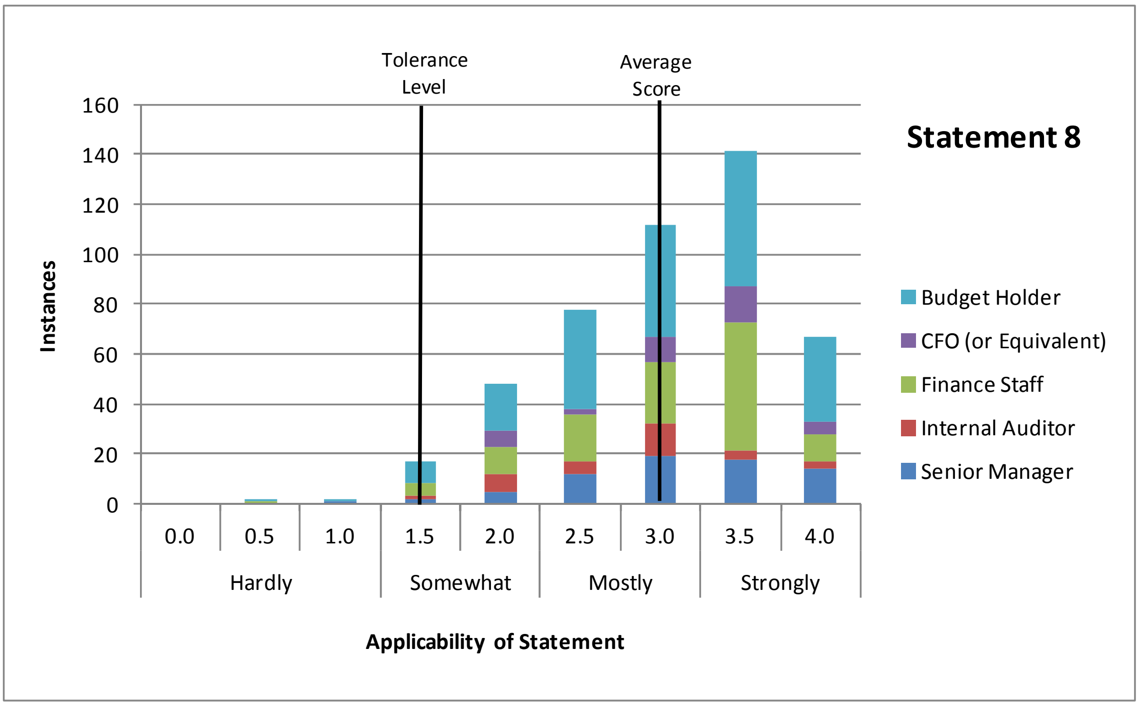
## 8 The department regularly monitors and evaluates controls

Individual internal controls that have previously been proven to be effective can weaken over time, fail, or become redundant. Required controls could also be non-existent. Even after remediation of deficient controls, the residual risk can still be outside the organisation's limits for risk taking, which might necessitate the implementation of additional or different controls. For example, hacking of corporate and government computer systems has become much more sophisticated, and, therefore, what was good internal control practice only a year or two ago may be inadequate today.

Therefore the design and implementation of controls should be subjected to regular assessment. The regularity of such evaluations depends on factors such as: volatility of the environment, the importance of the control, the nature of the control (eg, routine or non-routine controls), the stability of the control, the history of failures of the control, the existence of compensating controls, and cost-benefit considerations.

Monitoring should include the investigation of events and other incidents to determine how controls have performed and how they could be improved.

The survey reports that internal controls are regularly monitored and evaluated controls "mostly", with an average score of 3.0, above the Treasury minimum tolerance level. See chart below.




Some respondents were able to identify internal reporting and monitoring programmes

> *SLT receives monthly financial and regular consolidated quarterly reports and there are formal assurance questionnaires and activities*

> *(The Department) has a risk programme that incorporates: a legislative compliance programme (reviewed annually), annual review of the internal control and management environment and annual review policies and procedures (with independent oversight over the policies by an independent risk committee)*

> *The Senior Management Team receives an annual report on Internal Audit activity and the Internal Auditor's quarterly report to the Audit and Risk Management Committee.*

*Centralised processing unit monitors compliance with Financial Policies and escalates anomalies to the manager above and the relevant management accountant. Significant breaches are escalated to the CFO.*

Several departments noted their use of Comply With software for legislative compliance monitoring.

*A 6 monthly legislative compliance reporting programme is in place using Comply With software.*

*The Ministry uses Comply With to monitor legislative compliance. Survey is completed annually and results reported to the Ministry Leadership Team.*

*We use Comply With to monitor compliance with legislation and regulations.*

There were, however, a number of comments, that suggested that such monitoring and evaluation was not very visible in departments.

*Introduction of a dedicated compliance officer would contribute to the effectiveness of regulatory compliance*

*I am not aware of what actual monitoring or random checking is done to ensure compliance to policies.*

*Assume so but not communicated to L5 Managers.*

*I know we in our section have this happen. I am not sure what is done with the findings if something unusual is found.*

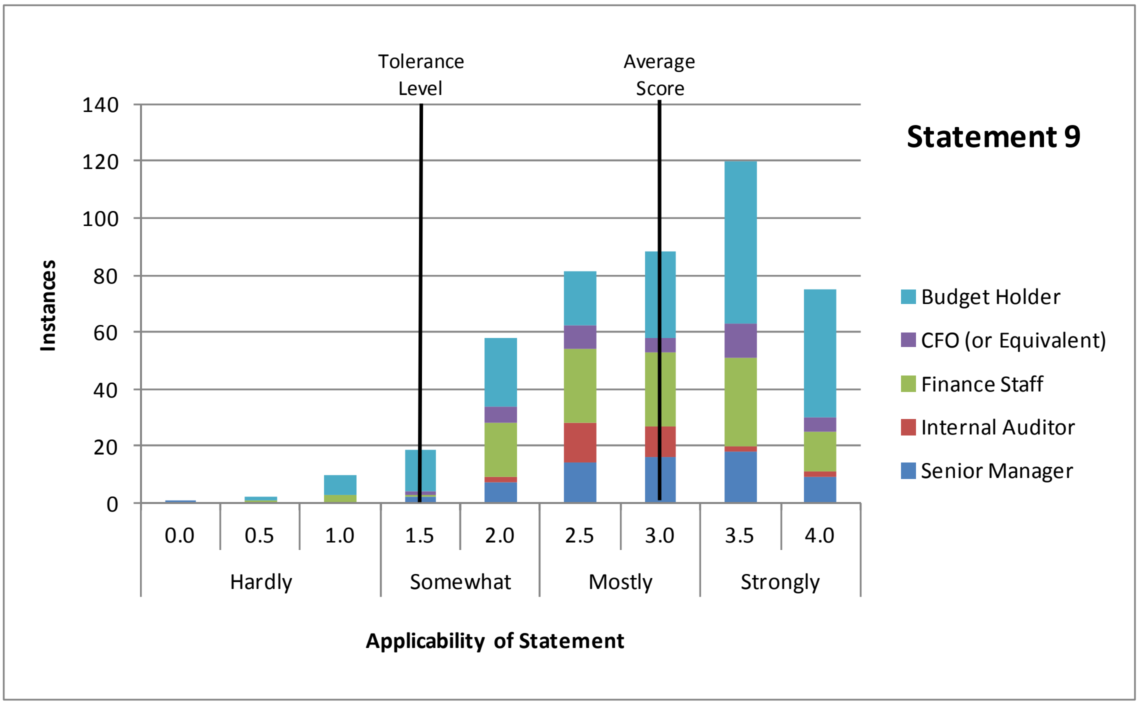
*In my role I don't have detailed knowledge of how this is done at overall departmental level.*

*The Ministry may monitor compliance with laws but I have no visibility of this. The Ministry does do monitoring around some of the financial controls in place (eg, contractors and consultants, travel expenditure)*

# 9 The department is accountable and transparent

Good practice dictates that departments should transparently report on the structure and performance of their governance, risk management, and internal control system in their various reports to internal and external stakeholders, such as through their periodic accountability reports. In NZ these requirements are placed in statute, and there are separate scrutiny processes to ensure these statutory requirements are complied with.

The survey reports that departments are “mostly” accountable and transparent with an average score of 3.0, above the Treasury minimum tolerance level. See chart below.




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

Some operational departments that have significant dealings with the public reported good processes for managing and handling complaints. .

> *(The Department’s) review processes and reports contain contact details for use by the school, parents, and other participants (and this is explained as part of the review process). A complaints process is documented and adhered to by all regions and by national office (with all complaints registered electronically and acted on accordingly).*
>
> *Certainly does for a number of areas*
>
> *(Our) website includes a process for survey respondents to lodge complaints. We have a Respondent Advocate - a formally appointed senior staff member who handles complaints and concerns from survey respondents, and advocates on behalf of respondents' interests as a group within the department.*
>
> *There are clear paths for the public to register complaints or concerns*
>
> *The Department has internal and external complaints procedures which are well documented on our public website. Because of the nature of the business, the Department is also subject to a range of independent complaints authorities such as the Ombudsman, Privacy Commissioner, and others*

*There are a range of ways concerns or complaints can be expressed. These are treated seriously, all those that come in through our info email are assigned and follow up times are set. These are tracked to ensure public have received an appropriate response in a timely manner*

Other respondents however indicated uncertainty or suggested this was an area that could be improved.

*We could perhaps do more to 'publicise' the options the public have to register concerns or complaints. As a general rule concerns and complaints are considered, and certainly followed up when there is substance to them.*

*While the responses to the questions are positive in the most part for this section, the demonstrated values and methodologies of the Department would suggest not all is accountable and transparent*

*(The Department) does publish all appropriate lines of contact, but does not explicitly state that the public can register concerns or complaints. There is a draft complaints management policy under review. Once this policy has been approved, it would be published. There is a plan for this policy to be made accessible to members of the public and contact provided on Ministry website to direct complaints from the public.*

*Could perhaps do more to communicate this. We have a Ministry email box and other avenues.*

*I tried to find this out once and it was impossible.*

*I'm not sure if the Ministry has a specific avenue for customer complaints. I know there are pockets of support structures around this but I'm not aware of a higher level department wide one*

Where there were comments, the role of the Statement of Responsibility was acknowledged and processes to support it were affirmed.

*The statement of responsibility is as per the Annual Report*

*Within the Statement of Intent a single page is devoted to the Statement of Responsibility which references other pertinent detailed information. This page is signed off by the CE, the CFO, and the Minister*

There appeared a general lack of awareness of the operation of audit committees and the effectiveness of audit committees. A number of smaller agencies did not think they would add value.

*The Department has an Audit function within one of its committees, but as to its effectiveness - I do not know.*

*While the Audit Committee exists and provides good advice it is not a true governance group as all delegations and decisions rest with the CE and the senior leadership group.*

*The Ministry does not have an Audit Committee as it believes this would not add any extra value to the Ministry*

*Assurance and Risk Committee recently reconstituted - will be more effective than the previous one but will take time to establish itself.*

*I presume it does but I don't know.*

*Being a small office we do not have an official audit committee, but nor is there a need for one. All major decisions are made jointly by the Senior Management Team and conducted in an open and transparent manner*