

## Summary Results

# 2013 “CIPFA TICK” Survey – Evaluation of Departments’ Internal Controls

August 2013

### Executive Summary

Each year the Secretary to the Treasury must attest that the system of internal controls across all Government reporting entities has operated effectively throughout the reporting period. Significant reliance is placed on the Treasury’s assessments of departments’ internal controls when making this attestation.

This year, a new “CIPFA TICK” survey evaluation process was implemented to assess those internal controls, replacing the former “DICE” process.

The new process involved a survey, completed by 500 staff across all departments, seeking their views and comments on internal controls in nine key areas, with each area represented by a statement.

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

The average score attained for each statement exceeded the minimum assurance threshold that had been established by the Treasury before the survey began. Therefore, the results will support the Secretary to the Treasury’s attestation that the internal controls in the Government reporting entity are operating adequately for 2012/13.

While the minimum thresholds set by Treasury were reached, there were a number of themes that emerged from the explanatory comments provided by the individual survey participants.

- There is a low level of maturity in integrating objectives, risk management and internal controls.
- Updating risk management processes and responsibilities has proved a burden for departments that have been restructured recently.

- Value for Money is a prevalent objective, but it is not easily measured and this has undermined accountability, and has apparently contributed to a widespread lack of meaningful consequences for non-performance.
- Senior Management Teams lacked consistent, and joined up leadership on risk management and internal control was not being consistently reinforced.

## Background

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

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

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

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

For departments however, as separate governance boards do not exist, an additional process is required to independently evaluate departments' internal control environments. In recent times, the Treasury contracted external audit teams to test certain aspects of control systems. However this year, in the interests of refreshing focus on internal controls, collecting more useful performance information for department management and achieving cost savings, the Treasury rolled-out a new process for evaluating internal controls in departments, called the "CIPFA TICK" survey.

## CIPFA TICK Survey

The survey is a new product designed by the Treasury that draws on CIPFA's<sup>1</sup> web-based financial management model and on recent research conducted by IFAC<sup>2</sup> on good-practice internal control principles.

Having successfully trialled the survey through four departments initially, the Treasury rolled it out to the remaining departments in May, involving approximately 500 departmental staff (with an overall response rate of 91%).

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

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

<sup>2</sup> International Federation of Accountants

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

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

- asked departments to provide a pool of candidates for the survey, from which the Treasury randomly selected a sample
- selected relatively large samples (ranging from five staff in the smallest departments to 26 in the largest)
- captured a cross-section of perspectives by including in the sample for each department at least one budget holder, CFO, finance officer, internal auditor (where possible) and senior manager, and
- afforded a level of confidentiality to survey participants where possible

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

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

## Survey Results

The results of the 2013 CIPFA TICK survey are summarised below. The overall average scores attained by the departments meet the Treasury's minimum requirements. That is, the results confirmed that the internal control environment across all government departments is sufficiently sound. Therefore, (once supported by the signed Statements of Responsibility the Treasury collects from each department, and the external audit results that will be received later this year) the survey results provide a basis for giving assurance to the Secretary to the Treasury concerning the Statement of Responsibility for the 2012/13 financial year.

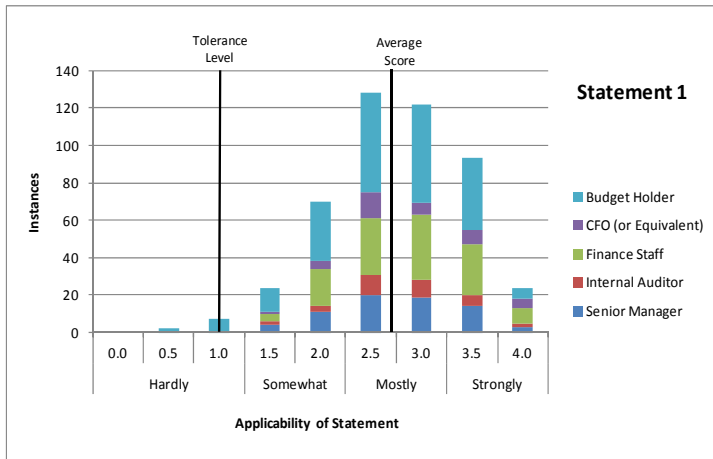
The tables below show the spread of the scores received and the general themes drawn from individual participants' comments for each statement. Please note that because the comments received tended to focus on potential areas of improvement, the themes may appear overly negative when compared to the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

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

A more complete analysis is provided in the [Analysis of Responses CIPFA TICK Survey 2013](#), providing both information on why the statement is important and the evidentiary support for the analysis against each statement.

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

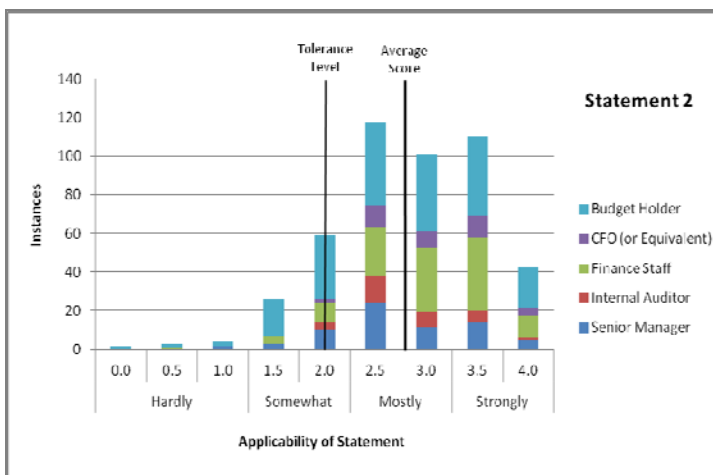
**Statement 1. Internal control supports the department’s objectives**



A number of respondents acknowledged the importance of integration between objectives, risk management and internal controls. 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. A number of departments noted developments (both recent and planned) that seek to improve their identification and assessment of risk.

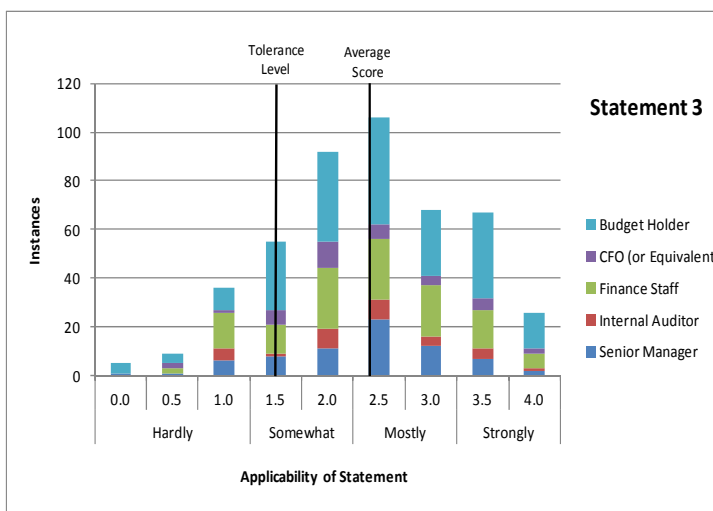
Often survey participants noted that risk management and internal controls appeared to be partial or inconsistently carried out. Other concerns focussed on the departments’ strategy and prioritisation processes.

**Statement 2. The department determines roles and responsibilities**



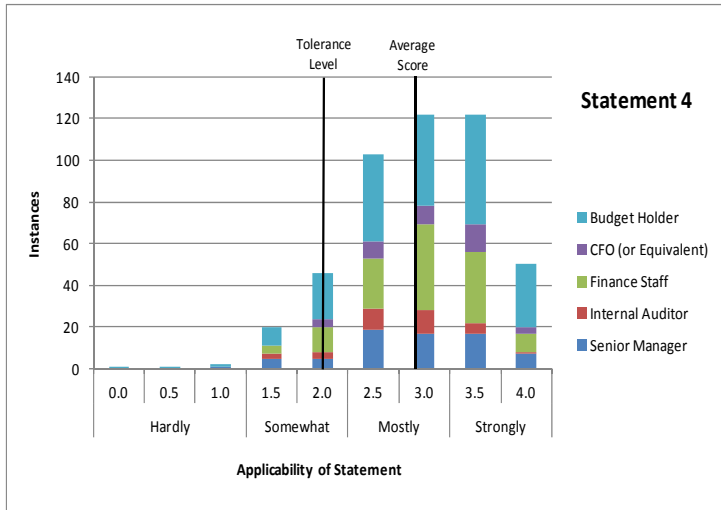
Updating risk management processes and responsibilities is a burden for departments that have been restructured recently. There is also a resourcing issue, mainly for smaller departments. Otherwise, there is a general level of maturity in establishment of roles and responsibilities. But there are exceptions, with some of those exceptions apparently arising from a lack of communication.

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



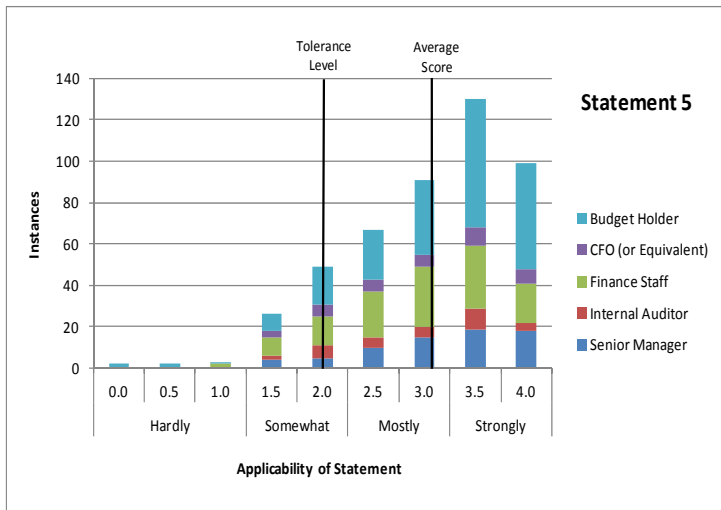
Internal control objectives are only moderately linked to individuals’ performance objectives. This is an area some departments are working on, and is particularly an issue for recently restructured departments. Value for Money is a prevalent objective, but it is not easily measured and this has undermined accountability, and apparently contributed to a widespread lack of meaningful consequences for non-performance.

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



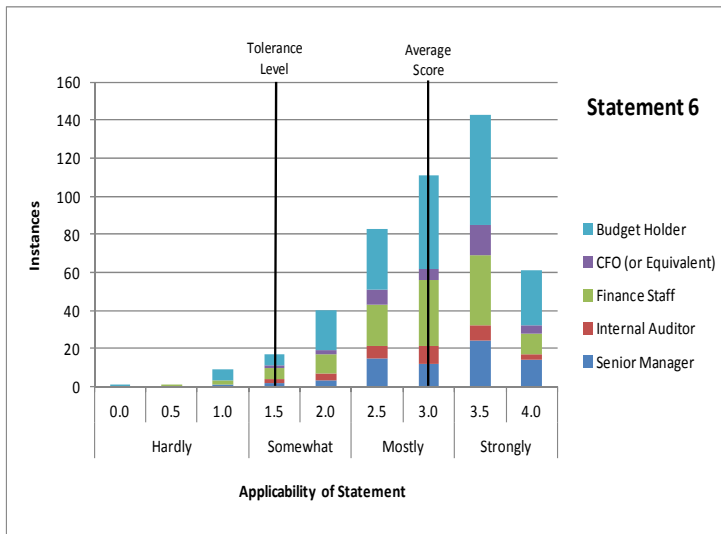
There was a fairly widespread lack of knowledge of financial management competency frameworks being applied. In a number of departments there were affirmations of competency. A few respondents referred to centrally-led initiatives (BASS and Optimised Finance) in making assessments in this area. However, some responses indicated that levels of competency were varied.

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



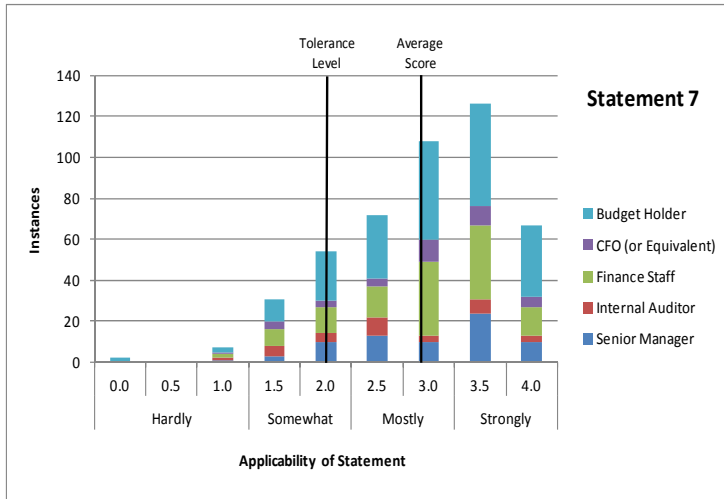
Senior Management Teams lacked consistent, and joined up leadership on risk management and internal control was not being consistently reinforced. A number of respondents expressed optimism for improvements. Others however rated management highly in this area.

**Statement 6. Internal controls respond to risks**



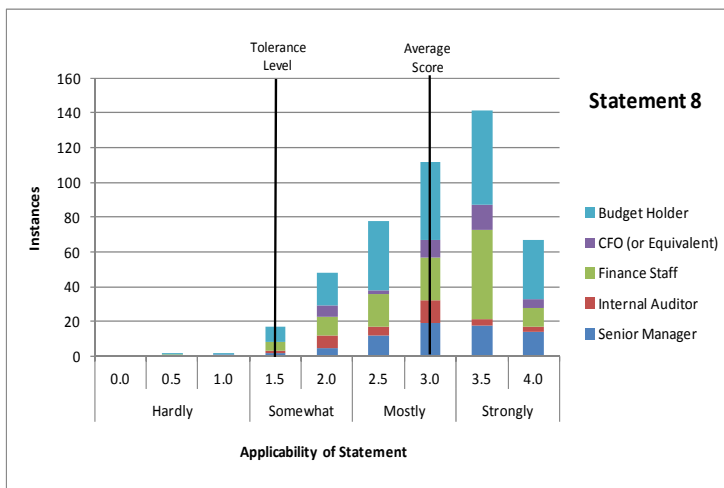
A few respondents suggested that internal controls were overly reactive to risks. More, however, pointed to regular or recent reviews to ensure that internal controls were relevant. A few highlighted areas where internal control procedures could be updated to be more relevant to current risks.

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



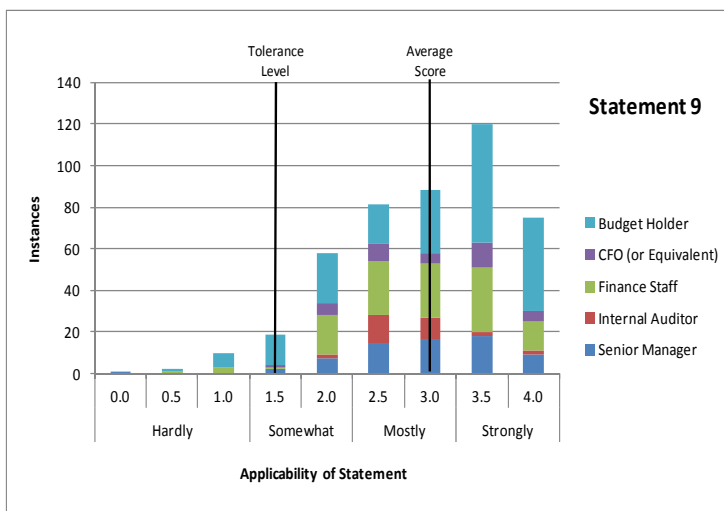
The comments on this principle were fairly mixed. Several respondents noted specific efforts to communicate controls and responsibilities. Others affirmed that it was a matter of common sense to seek clarification or escalate issues to a manager or supervisor. A number of comments queried whether communication practices were uniformly well applied within the department. Others again indicated that this was an area for improvement.

**Statement 8. The department regularly monitors and evaluates controls**



Some respondents were able to identify internal reporting and monitoring programmes. Several departments noted their use of “Comply With” software for legislative compliance monitoring. There were, however, a number of comments that suggested such monitoring and evaluation was not very visible in departments.

**Statement 9. The department is accountable and transparent**



Some operational departments, that have significant dealings with the public, reported good processes for managing and handling complaints. Other respondents however indicated uncertainty or suggested this was an area that could be improved. Where there were comments, the role of the Statement of Responsibility was acknowledged and processes to support it were affirmed. 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.

# Appendix One - 2013 CIPFA TICK Survey – Statements and Supporting Questions

The following table shows the statements and supporting questions that comprised the 2013 CIPFA TICK survey.

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

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

	Statements and Supporting Questions	Contributor Categories				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
<b>4</b>	<b>There is sufficient competency in fulfilling internal control responsibilities.</b>					
4.1	Is there a financial management competency framework that identifies competencies needed at different levels of responsibility throughout the department?		X	X		X
4.2	Are posts that include responsibility for budgets and spending required to have specified financial competencies?	X	X	X	X	X
4.3	Do posts that require recognised professional skills, knowledge and competencies have job descriptions and person specifications that reflect these requirements?	X	X	X	X	X
4.4	Are senior finance positions filled by suitably qualified and experienced accountants?	X	X	X		X
4.5	Is the Finance function performance managed through defined standards that are regularly reported and monitored?		X	X	X	
4.6	Are senior management members and staff aware of relevant codes of conduct and is compliance high?	X	X		X	X
4.7	Do external auditors and inspectors comment favourably on the capacity of the finance function?		X	X	X	
<b>5</b>	<b>The "tone at the top" motivates staff to adhere to internal control policies</b>					
5.1	Do senior management team members as individuals show leadership by example in their own personal conduct?	X	X	X	X	X
5.2	Does senior management set the tone that finance matters?	X	X	X	X	X
5.3	Do senior Managers demonstrate an understanding of the financial management rules by actually applying them?	X	X	X	X	X
5.4	Is the senior management team involved in determining key risks and responses?	X	X	X	X	X
<b>6</b>	<b>Internal controls respond to risks.</b>					
6.1	Does the department regularly review its internal control procedures and update them where necessary?	X	X	X	X	
6.2	Are there arrangements to escalate risks to the Senior Management Team if the scale would have a corporate impact?	X	X	X	X	X
6.3	Does the Leadership Team take prompt action to remedy any breakdowns in internal control procedures?		X		X	X
6.4	Does the department have up-to-date procedures to prevent, detect, and investigate misconduct, fraud and corruption?	X	X	X	X	X
<b>7</b>	<b>Regular communication regarding the internal control system takes place.</b>					
7.1	Are all staff involved in financial processes (e.g. invoice processing or year-end accounts) aware of their role and impact, whether Finance staff or not?	X	X	X	X	X
7.2	Does the department monitor and act to ensure staff comply with its policies and procedures?	X	X	X	X	X
7.3	Does the department regularly review the effectiveness of counter fraud and corruption arrangements?		X		X	
7.4	Do staff know what to do if they suspect misconduct, fraud or corruption?	X	X	X	X	X



	Statements and Supporting Questions	Contributor Categories				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
<b>8</b>	<b>The department regularly monitors and evaluates controls.</b>					
8.1	Does the department monitor and act to ensure compliance with relevant laws (e.g. Public Finance Act) and regulations (e.g. Treasury Instructions), and that expenditure is lawful?	X	X	X	X	X
8.2	Does the department monitor and act to ensure compliance with its documented internal control procedures?	X	X	X	X	X
8.3	Is the Senior Management Team given a consolidated view of the department's finances and risks, including from Crown entities monitored and important delivery partners?		X		X	X
8.4	Does the Senior Management Team regularly review the effectiveness of the department's risk management arrangements, including assurance from internal audit?				X	X
8.5	Does the department monitor and act to ensure that its Financial Policies or Standing Financial Instructions (including procurement) are applied appropriately?	X	X	X	X	X
<b>9</b>	<b>The department is accountable and transparent.</b>					
9.1	Does the department have an effective Audit Committee?		X	X	X	X
9.2	Was the annual audit letter free of weaknesses identified in the operation of internal controls?		X	X	X	
9.3	Does the department publish a Statement of Responsibility covering Internal Controls, including internal financial control and risk management, signed by the Chief Executive?			X	X	
9.4	Does the department publicise how the public can register concerns or complaints?	X	X		X	X