

Summary of Results

2014 “CIPFA TICK” Survey – Evaluation of departments’ internal controls

October 2014

Executive Summary

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

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

The CIPFA TICK process involved a survey, sent to 582 staff, and completed by approximately 500 staff from departments and Offices of Parliament, seeking their views and comments on internal controls in nine key areas, with each area represented by a statement.

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

The average score attained for each statement comfortably exceeded the minimum assurance threshold that had been established by the Treasury before the survey began. The latest results, therefore, supported the Secretary to the Treasury’s attestation that entities’ internal controls were operating adequately in 2013/14.

While the minimum thresholds set by Treasury were reached, and some respondents were able to comment positively on the performance culture of the organisation, a number noted that financial management performance was not appraised, or not seen to be appraised. Some of these comments suggested problems more generally with performance appraisal.

Background

Under The Public Finance Act 1989 (s29) the Secretary to the Treasury is required to prepare the Financial Statements of the Government of New Zealand (FSG) for the

Minister of Finance, attest to specific aspects of the statements and to provide a signed Statement of Responsibility stating that:

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

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

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

For departments and Offices of Parliament, however, separate governance boards do not exist which is why an additional process is required to independently evaluate departments' internal control environments. Until 2012, the Treasury had contracted external audit teams to test certain aspects of control systems. Last year, in the interests of refreshing the 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. 2014 was the second year the survey was carried out.

CIPFA TICK Survey

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

Having successfully run the survey for the first time last year, we launched this year's survey in May, involving 582 departmental staff (with an overall response rate of 86.5%).

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

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

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

- Asked departments to provide a pool of candidates for the survey, from which we randomly selected a sample
- Selected relatively large samples (ranging from four staff in the smallest departments to 27 in the largest)

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

² International Federation of Accountants

- 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 2014 CIPFA TICK survey are summarised below. They indicate that the overall average scores attained by the departments meet the Treasury's minimum requirements – that the internal control environments across all government departments is sufficiently sound. Ahead of external audit results, which are due later this year, the survey results provide a firm preliminary basis for the Secretary to the Treasury to give an assurance concerning the Statement of Responsibility for the 2013/14 financial year.

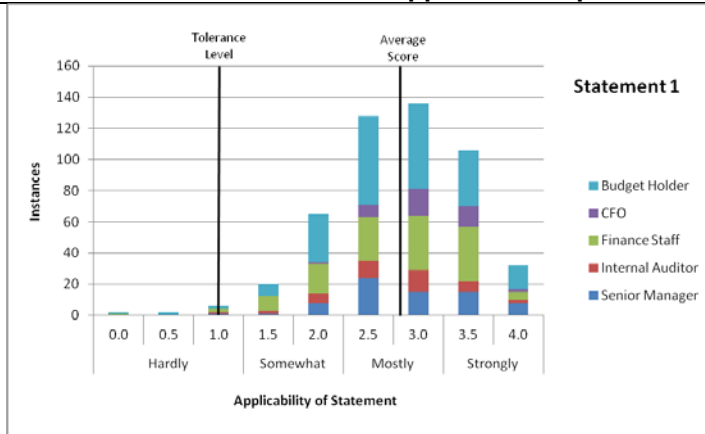
The table below shows the spread of the scores received and the general themes drawn from individual participants' comments for each statement. Please note that because the comments received tended to focus on potential areas of improvement, the themes may appear overly negative when compared to the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

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

A more complete analysis is provided in the [Analysis of Responses CIPFA TICK Survey 2014](#) (PDF 400KB), providing both information on why the statement is important and the evidentiary support for the analysis against each statement.

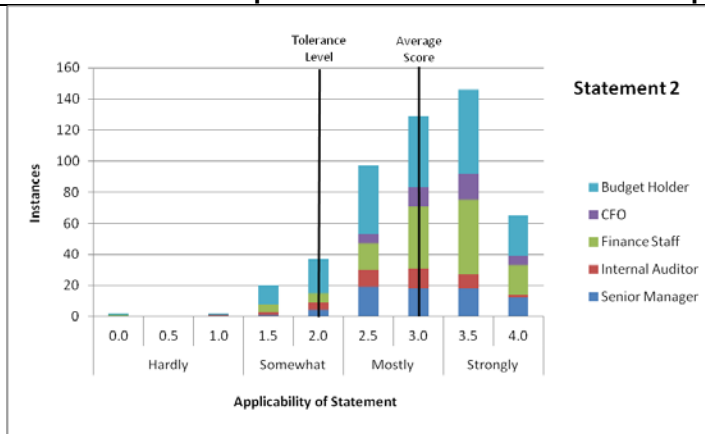
More details about the contents of the survey (with the supporting questions) are provided in Appendix One.

Statement 1. Internal control supports the department's objectives



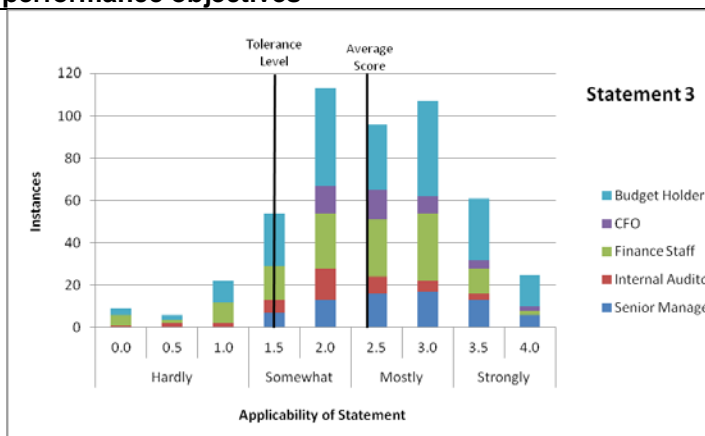
Some respondents provided positive comments, or comments noting recent developments in this area. However, a greater number of comments on this section provided by respondents indicated a fair amount of uncertainty about the use of internal control in supporting departmental objectives. The few respondents that were able to directly comment on the level of support that internal controls provide in meeting the departmental objectives suggested there was some overshooting and that there were too many burdensome controls.

Statement 2. The department determines roles and responsibilities



The general view was that this is not a major issue in departments. A significant number of comments noted recent reviews or changes in delegations to best match responsibility with accountability. Concerns tended to focus on clarity of responsibilities between finance and operational roles, and the communication between these groups. One respondent identified an issue with people in 'acting' positions, and one other highlighted that difficulties can arise where there are conflicts.

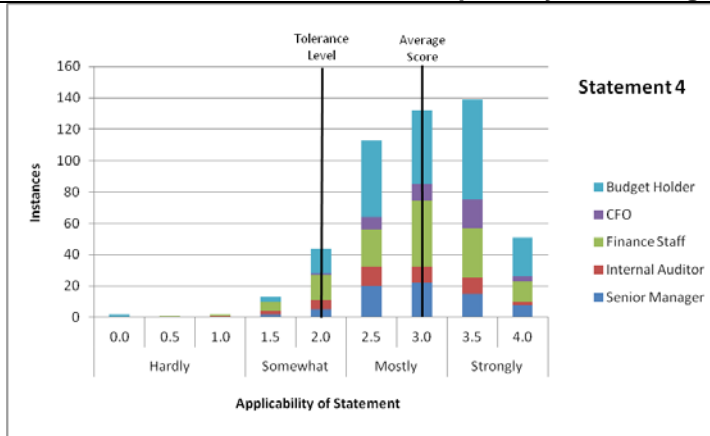
Statement 3. The achievement of internal control objectives is linked to individuals' performance objectives



Some respondents were able to comment positively on the performance culture of the organisation. However, a disturbing number noted that financial management performance was not appraised, or not seen to be appraised. Some of these comments suggested problems more generally with performance appraisal. Other respondents identified challenges in making improvements in this area. There was also fairly widespread frustration expressed at the lack of consequences or the inappropriate consequences that occurred when performance or competency was not up to

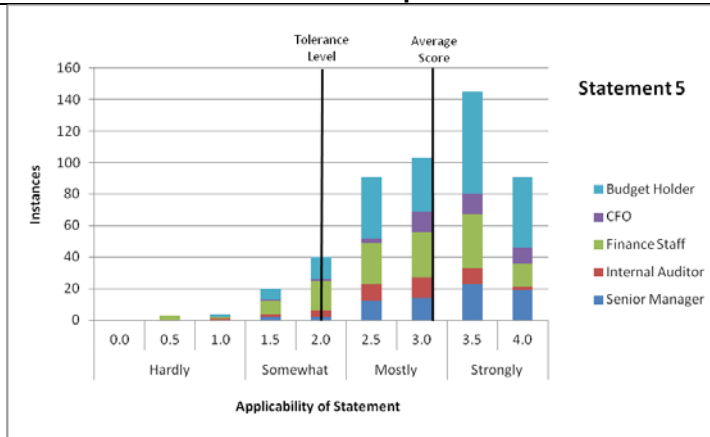
expectations.

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



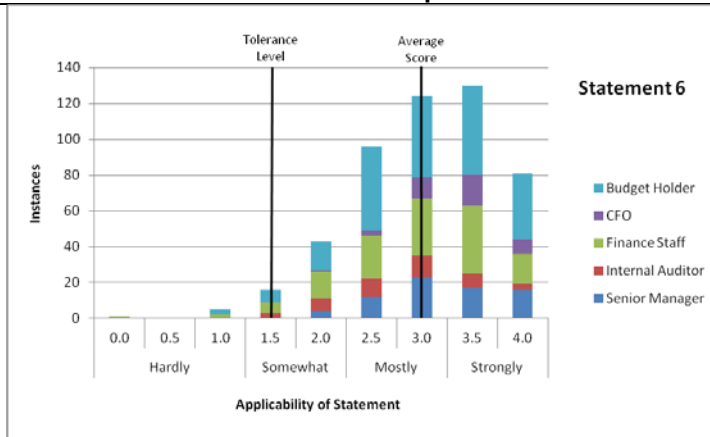
There was some reluctance to comment on financial management competencies outside respondents' direct experience. A number of positive comments were received about staff working in finance. Greater concern however was expressed about the development of financial management competencies of budget holders and managers. Some in fact still cling to the view that budget holders do not require financial management competencies.

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



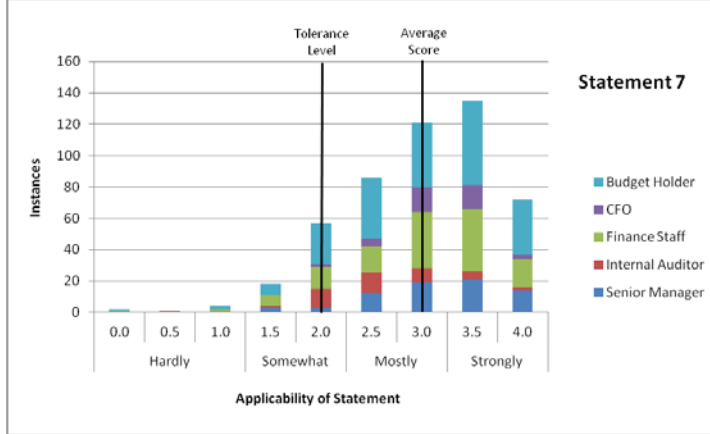
A number of respondents reflected positively on the effort that Chief Executives and Senior Management Teams put in to set the right tone at the top. However respondents also provided reminders that every action taken by senior managers contributes to the tone that is set, and that inconsistencies between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

Statement 6. Internal controls respond to risks.



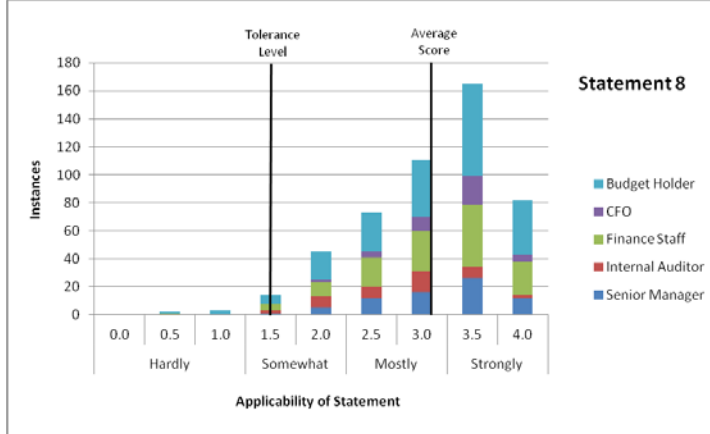
A number of respondents identified recent changes to keep internal control processes updated and relevant, or otherwise provided assurance that they appropriately respond to risks. Others were less certain, pointing to a lack of internal communication to provide assurance. In particular, some doubts were expressed about escalation procedures, when internal control breakdowns are identified.

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



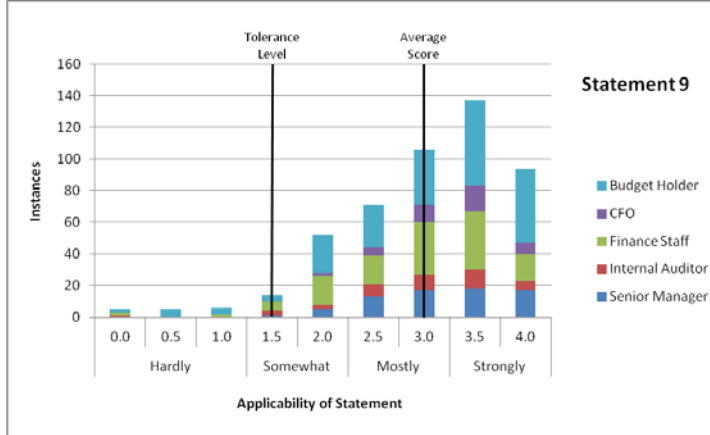
A fair amount of confidence was expressed in current procedures. The reservations that were expressed mainly focused on the need for constant refreshment and education to maintain current levels.

Statement 8. The department regularly monitors and evaluates controls.



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

Statement 9. The department is accountable and transparent.



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

Smaller departments tend not to have an audit committee. Audit Committees are generally well regarded but appear to have a relatively low profile in departments.

A number of departments noted a lack of public interface as a reason for limited interaction with the public. Where policies exist they appear not to be well publicised.

Appendix One - 2014 CIPFA TICK Survey – Statements and Supporting Questions

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

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

	Statements and Supporting Questions	Contributor Categories				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
1	Internal control supports the department’s objectives.					
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 methodologies for assessing risk?	X	X		X	X
1.3	Do risk management arrangements include formal identification, recording, and assessment of risks?	X	X		X	X
1.4	Do the risk registers link risks to departmental objectives?	X	X		X	X
1.5	Do risk management arrangements include monitoring the development of risks and the effectiveness of management actions through indicators and early warning signs?	X		X	X	X
1.6	Are internal controls targeted to eliminate preventable risks cost-effectively?	X	X	X	X	
2	The department determines roles and responsibilities.					
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
2.4	Are delegated authorities and responsibilities clear?	X	X	X	X	X
3	The achievement of internal control objectives is linked to individuals’ performance objectives.					
3.1	Does the department’s appraisal scheme include financial management	X	X	X	X	X

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

	Statements and Supporting Questions	Contributor Categories				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
	misconduct, fraud and corruption?					
7	Regular communication regarding the internal control system takes place.					
7.1	Are all staff involved in financial processes (e.g. invoice processing or year-end accounts) aware of their role and impact, whether Finance staff or not?	X	X	X	X	X
7.2	Does the 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
8	The department regularly monitors and evaluates controls.					
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
9	The department is accountable and transparent.					
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