

Analysis of Responses: ICAT¹ 2018

1 Do internal controls support the department’s objectives?

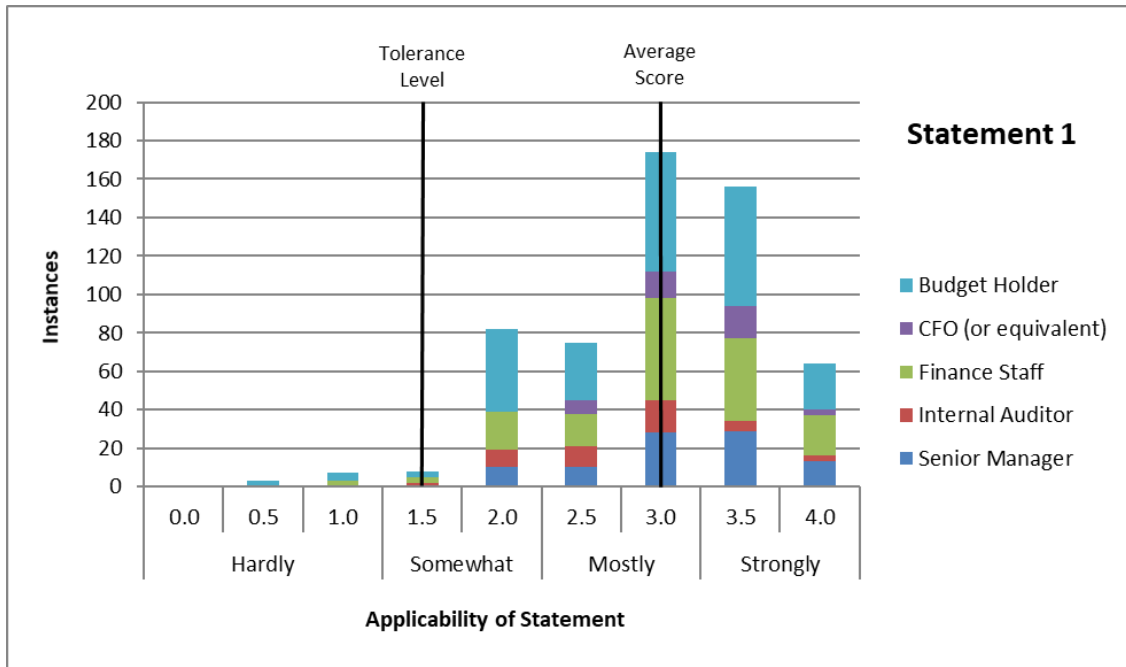
Internal control should be used to support departments in achieving their objectives by managing risks, while complying with rules, regulations, and organisational policies.

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 of governance, risk management, and internal control system:

- 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.

The survey reports that internal controls “mostly” support departmental objectives, with an average score of 3.0, well above the Treasury minimum tolerance level.



¹ Internal Control Assessment Tool

Some respondents connected internal control to compliance rather than performance...

- *Internal controls achieve a level of hygiene but probably wouldn't be described as strategic enablers.*
- *Internal controls currently focus on key control points within key processes. The next stage is to identify strategic risks (as part of the business planning process) and ensure appropriate mitigations are in place.*
- *Our internal controls focus on ensuring we are meeting legislative and other requirements, the reliability of our financial reporting etc.*
- *There isn't obvious alignment, Internal controls are developed around things like safety, risk mitigation and management of assets.*

while others were more positive about the connection with departmental objectives.

- *Assurance Group ensures that the department is owning and managing its strategic and operational risks through independent reviews of service delivery and capability. This group provides assurance reports to the executives which includes recommendations for improvement.*
- *Strongly where the objectives relate to integrity and performance.*
- *We are doing really well in this space and show a willingness to learn and make gains from events in the past.*

But with a recognition that making this connection was a long game.

- *I believe there has been progress in the last year, however practices are still maturing and being embedded.*
- *Internal Control environment gets more mature each year.*
- *Overall alignment of internal controls to support objectives. Aspects need to be improved but these are overstated as a part of the full gamut of IC.*
- *There is still more work to be done to consolidate the work but the direction and expectations are clear.*
- *Yes, and noting current improvements to planning that are in progress eg, refresh of the strategy, development of asset management plans.*
- *Still room to improve operationalising the high level strategy. More practical tools required to give effect to the framework and enable busy operations and service delivery managers to manage risk consistently well.*

There was a view that some controls were too burdensome or restrictive

- *Budget managers should be given more autonomy and flexibility to manage within their baseline and make trade-offs to achieve objectives. At the moment it feels like an administrative task as the controls are too tightly held by LT. This also leads to underspending and caution rather than taking a calculated risk.*
- *It is difficult to be definitive at this point. Many do support the organisations objectives, but we are reviewing and gaining a better understanding about effectiveness and impact. In some areas we are making adjustments given changes to reflect the organisations risk appetite.*
- *Some of our processes are overly burdensome and restrictive, which at times has prevented objectives been met.*
- *We have good arrangements in place to achieve objectives and to mitigate risks including re-prioritisation when impacted by emergencies.*

- *Risk management occurs but tends to be backward looking. While most managers and above actively manage known and potential risks the formal risk management system is so laborious and intrusive (it is perceived by some as a tick box designed to inform upwards not support risk management) that there are strong incentives to keep risks off the formal system.*
- *There is a system of risk registers (including a strategic risk register for the senior leadership team) but the discipline around the use of the tool varies. Consequently it doesn't necessarily drive discussion, or investment of time or resources.*
- *Due to a recent fraud, controls have been put in place that cost more and far outweigh the risk.*

A number of participants noted that their risk management policies and practices were being updated...

- *Due to be refreshed.*
- *Risk is considered in all aspects of decision making however the framework (strategy and policy) is a key area for development this year.*
- *Risk Management Policy currently being updated.*
- *The risk management policy was recently (May 2018) refreshed. The refreshed policy aligns with ISO31000 standards, and will be actively rolled out across the organisation.*
- *This is present but being updated and made more sophisticated.*
- *This is under development with a risk management policy recently adopted by the SLT Board. Risk matrixes and appetites are still under development.*
- *While the theoretical basis and policy have been developed, it has only minimally been socialised and incorporated into basic leadership training within the agency.*
- *Work to develop a risk management framework has recently commenced. A risk policy has been approved and a risk management and evaluation matrix to be used for the assessment of key risks identified is currently under consultation.*
- *Yes - we've really matured in this space - in particular... recently introduced 'risk action plans' - and these have resulted in more mature discussions at the group leadership level - which in turn supports what's punted up to SLT.*

But there was a common call for more information on risk appetites

- *Would be good to see some more information about our risk appetite.*
- *Maybe not much on "appetite".*
- *Not sure risk appetite is covered in the policy.*
- *Risk appetite is missing - it would be very helpful to have an SLT view of the appetite against strategic risks.*
- *Risk management strategy does not cover risk appetite.*
- *The Department has not formally defined its risk appetite.*
- *We could do better at training on risk appetite and methodologies across the organisation. Information currently resides in central planning divisions, and in Wellington rather than posts.*

While others complained that the integration of objectives, risk management and internal controls lacked clarity or visibility

- *Not sure risk appetite is covered in the policy.*
- *Reasonably sure there is, but it's not obvious to me. At my directorate level we are always discussing risk and raising it up to ELT.*
- *Yes it exists but it is not visible beyond the SLT table.*
- *I don't have access to any Ministry risk register.*

While others, perhaps better informed, noted gaps that need work

- *Risk registers are incomplete and inconsistent and the latter prevents a holistic view of risk.*
- *Indicators and early warning signs are missing from the Ministry's risk management arrangements.*
- *Our financial management early warning signs could do with some work; there's a significant variance between our general burn-rate/consumption versus forecasting (we're overly optimistic about what we think we can do) but we're told constantly that we'll breach but it never happens. This needs to work better.*
- *Risks around for example LMC co-design and pay were minimised out of fear and not well articulated leading to rushed budget response and poor sector relationships. Risks around bowel screening were poorly identified and not mitigated early enough in spite of some staff attempting to escalate the issue to more senior levels with different options.*
- *Risk identification clearly failed to identify the risk round water regulation.*
- *We could do some more work on emerging risks. The political environment and changes to that environment can result in increased or lowered risks although the basic risk remains the same.*

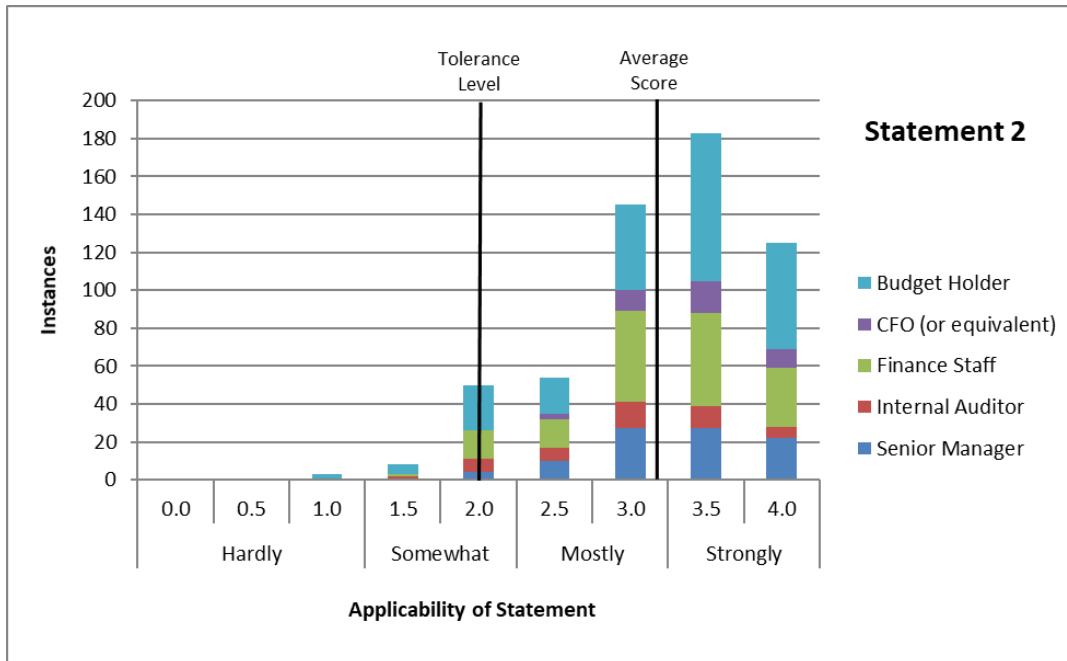
2 Do internal controls reflect roles and responsibilities?

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 3.2, above the Treasury minimum tolerance level. See chart below.



Government departments were able to provide strong assertions over clarity of roles and responsibilities...

- *Clear financial policies, regular reporting processes, transactional controls through Budget Manager approvals, internal and external assurance/audit processes.*
- *I feel this is an area that is now a key strength of the ministry.*
- *Clear roles and responsibilities.*
- *The leadership team and third tier roles and responsibilities are clear. As we undergo change internally to develop our capability and implement legislative changes we need to be mindful of linkages and dependences between functions and ensure responsibilities are clarified. In some areas where there have been changes, we are working and clarifying roles and responsibilities.*
- *The new organisation redesign has allowed us to fully evaluate and document this.*
- *There are stringent internal controls in place to ensure the financial statements are accurate.*
- *There is now a strong focus on single point accountability to seek to provide clarity for decision-making. This can be project-based, rather than because of a person's standard role within the agency. There are also embedded cross-functional systems with little visibility even though they are significant drivers of work and risk, for which it is harder to determine the accountable/responsible owner.*
- *We do this well. More focus is currently been put on roles and responsibilities within the governance of projects and on project boards.*

While some noted that there was room for improvement.

- *Alignment between roles/responsibilities/risks on one hand and resources on the other could be improved. The types of risks that warrant enhanced resource alignment should be drawn out. Risk frequency vs. impact vs. tolerance not well expressed, and this contributes to the resource alignment issue.*
- *All Budget holders are sent information and sign an annual declaration. However, asset management appears to be an ongoing issue for the Department - ownership responsibilities remain murky in places.*
- *Assurance does not always target the highest risk areas. There is room to improve in this area.*
- *Delegated authority is clear. However, there can be times when issues which cross teams fall between the cracks or lead to confusion as to who has responsibility to lead on an issue.*
- *Honestly, I'd have to say the delegations aren't as clear (or certainly as well understood) as they could and should be.*
- *How delegations cascade down has only recently been communicated but this is not communicated consistently. Decisions appear ad hoc at times and finance blow outs appear in the media too often.*
- *Policies need updating and assurance re compliance and effectiveness of controls across the enterprise needs improvement.*
- *Risk registers mostly detail this in terms of ownership and Governance actions. More improvement could be achieved with the monitoring of progress to resolve risks.*
- *There's certainly room for improvement here. And that's probably a bit counter-intuitive, because we are big here on role clarity in other arenas, and very focused on having people recognise and honour their purposes. All in all, this area of roles and responsibilities could probably do with a bit of a tune-up.*

Good processes were highlighted...

- *Annual Statement of Representation signed by all Directors and DDGs.*
- *Management provide an internal letter of representation to the CFO & CE to provide assurance that he can sign off the letter of rep. This is back up by a number of statement around our internal controls.*
- *There is a management attestation process in place to provide the Chief Executive with management assurance. There is room for improvement to provide more evidence-based assurance.*
- *Letter of Representation from line managers upwards, and also from external and internal audit reviews, approves with delegations and checks and balances within business processes.*

with clarity in expectations...

- *All treatment plans are expected to have an assigned owner and timeframe for completion.*
- *As leader of a business unit I know my obligations to manage risk, and who to contact to seek guidance/assistance if required.*
- *Clear job expectations.*
- *Every risk has a business owner assigned.*
- *Our risks have owners and clearly documented actions. We have a process of reviewing progress on actions, but I think actions need to be reviewed more frequently.*
- *Risk ownership and accountability is established for the management of each identified risk.*

- *There are very clear accountabilities in my area with swimlanes showing my responsibilities.*
- *We have clear delegations. These have recently been reviewed and all delegation holders reminded of their responsibilities.*

and good relationships between Finance and Operating divisions...

- *All finance staff have clear segregation of duties and defined roles so managers know which staff to contact.*
- *As a manager I am aware of who to contact in relation to my area.*
- *As to availability, there's always someone in finance who can help or tell you who to talk to.*
- *Finance staff are allocated down to team level so each team manager has an identified finance advisor assigned. The Finance Advisor will also provide advice and assist with escalation to the CFO etc. when required.*
- *Financial and management accountants roles and relationship management interactions are clearly defined.*
- *Recent structural changes in Finance are still bedding down organisationally. It doesn't take long to find the right person if the wrong pathway has been taken.*
- *The finance team demonstrate their availability for advice, coaching.*
- *Very strong relationships between finance and managers.*
- *Within Finance roles are probably clear, however, not necessarily as clear to the business. That said we are a small organisation and can quickly find the right person.*

with the major concern raised being resourcing.

- *Risk are identified and actions are underway to manage and mitigate risks however some Corporate Teams are not well resourced to support delivery of all desired programmes of work.*
- *The Ministry's ability to 'properly resource' action plans is a challenge given fiscal constraints.*
- *There is poor resource arrangements due to restrictions in recruitment.*

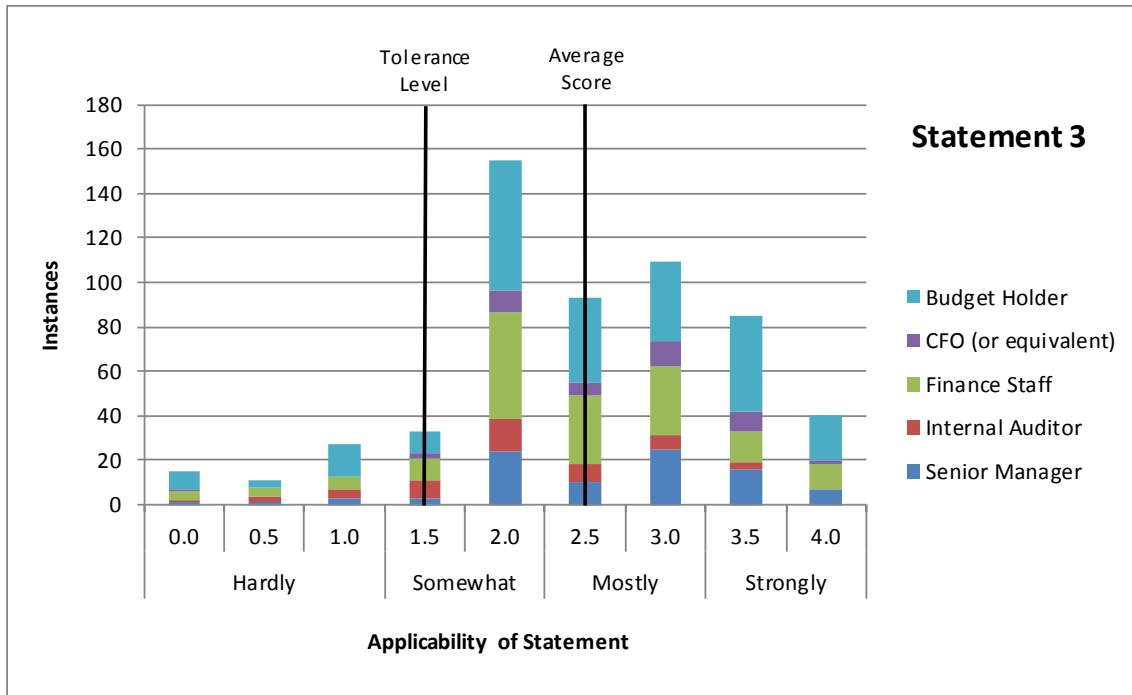
3 The achievement of internal control objectives is linked to individuals' performance objectives

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 2.5, above the Treasury minimum tolerance level. See chart below.



While some respondents thought that their departments did well on this element...

- *Everyone is well aware of the need to be fiscally prudent and operate within their delegated authorities.*
- *Individual Performance objectives are linked explicitly to business or Ministry objectives or outcomes, rather than to "internal control objectives". Within that there will be related expectations on the standards and conduct and decision quality.*
- *Managing the budget is part of my role, and I've had feedback on how this is going.*
- *My financial performance forms part of my regular meetings with my manager.*
- *My financial responsibilities are made very clear to me. And I am provided with ample assistance in meeting my obligations.*
- *Regular performance meetings are held at all levels. Monthly financial reporting and forecasting required.*

Others felt there was room for improvement

- *Given the Ministry's current financial situation, this is an area which could be strengthened.*
- *In my part of the business value for money is an important consideration but we could be more sophisticated in its application and consequences.*
- *In some areas we are very good but I think financial performance is an area where some improvement is warranted in some areas. Some business managers have been allowed to overspend and overcommit without the funding being available.*
- *It is meant to but is not in practice. For example, if one overspent or underspent their Budgets there is no consequence or discussion.*
- *The blow out in demand driven expenditure in service commissioning the past 2-3 years has not been reflected in the director's performance or in the former Chief Executive's performance objectives.*

- *This may have become a little less clear under the new performance framework.*
- *We could do more to hold people to account around financial performance.*

Generally financial management was not a strong focus in performance appraisal, and this was often thought to be appropriate

- *A hard-line is not taken. Managers are encouraged to work together to solve issues.*
- *Almost all decisions by managers have a cost element eg, staff time has a cost element. There is not a process that introduces the cost element specifically into any review of decision making. This might occur more by exception where it is obvious that there was an adverse decision from a cost perspective.*
- *It's definitely an expectation but no systematic approach to reflecting achievement or otherwise as part of appraisal process.*
- *I think this is implicit, rather than an explicit requirement necessarily discussed in appraisals.*
- *My budget is essentially salaries and some for contractors if necessary, so while proper financial management is part of my KPIs, in practice it is not relevant to my role to have it actively monitored. There are also other internal checks on spending (such as the 1 up rule) which ensure competency in real time.*
- *I wouldn't say it is strongly assessed. It would certainly be brought up if you were doing a really bad job of it.*
- *Implicit in appraisals but the linkage is low.*
- *My Deputy Chief Executive introduces it into performance conversations, but I'm not aware of any formal 'hooks' for this in the performance appraisal process.*
- *There is no hard-wired financial management objectives in my performance appraisal form.*
- *There is no need to be detailed and explicit about competence in this area in either expectations or appraisals, as it is a fundamental and baseline expectation we will be competent. Poor performance is dealt with on an exceptions basis.*
- *There isn't a focus on budget during one-on-one catch ups as has been the case in my previous organisations. There could be a stronger focus on having our finger on the pulse.*

And while there was uncertainty expressed about consequences from the appraisal process,

- *Don't think there are consequences for poor financial performance when it comes to appraisals and remuneration decisions.*
- *Expectations are clear. I am not sure that consequences are as clear or followed through consistently.*
- *If it occurs, it is not visible.*
- *It is apparent that some managers will overspend without any consequences and other managers have their budgets cut to cover the overspends. Budgets also seem to be set without consideration for existing commitments and agreed work plans.*
- *It's fairly hit and miss from where I see things. Some Executive members are good at holding others to account, whereas others seem to turn something of a blind-eye to corporate disciplines (there certainly aren't any 'heads on stakes' when managers in some parts of the business overspend their budgets, for example; or, at least, you don't hear about it).*
- *There are no meaningful consequences.*

Again, others felt that this was appropriate, with appraisal an opportunity for coaching rather than sanctions

- *Managers are held to account by their managers to explain value for money decisions. Any sanctions or 'consequences' for poor decision making would be taken long before appraisal time.*
- *We are less formal in this linkage than many performance assessment systems.*
- *Historically financial management competencies used to be part of any manager who had a delegated financial responsibility. Our new PA process doesn't expressly call this out however it will invariable form part of the performance discussion.*
- *Managers are expected to ensure that staff learn from their mistakes (if any), and processes are amended (if required).*
- *Our coaching for success template enables staff to set their objectives through discussion with manager. This is not a rigid template but a discussion document adapted to each individual.*
- *The Ministry does not have performance appraisals. This question feels outdated. Our coaching for success model is more modern and doesn't necessarily align with this way of thinking.*
- *We do not have annual performance appraisals. Informal appraisals to date have not mentioned finance competency.*
- *We've recently changed the approach to performance assessment. Both performance and financial outcomes are part of role descriptions but I don't think we have a consistent approach to reviewing how managers have gone against them across the organisation nor any explicit agreement on what consequences are if you don't meet them.*
- *Note that to be effective all individuals need to only have a limited number of performance objectives; if any individual has too many objectives, those objectives will fail to influence that individual's behaviour.*

4 There is sufficient competency in fulfilling internal control responsibilities

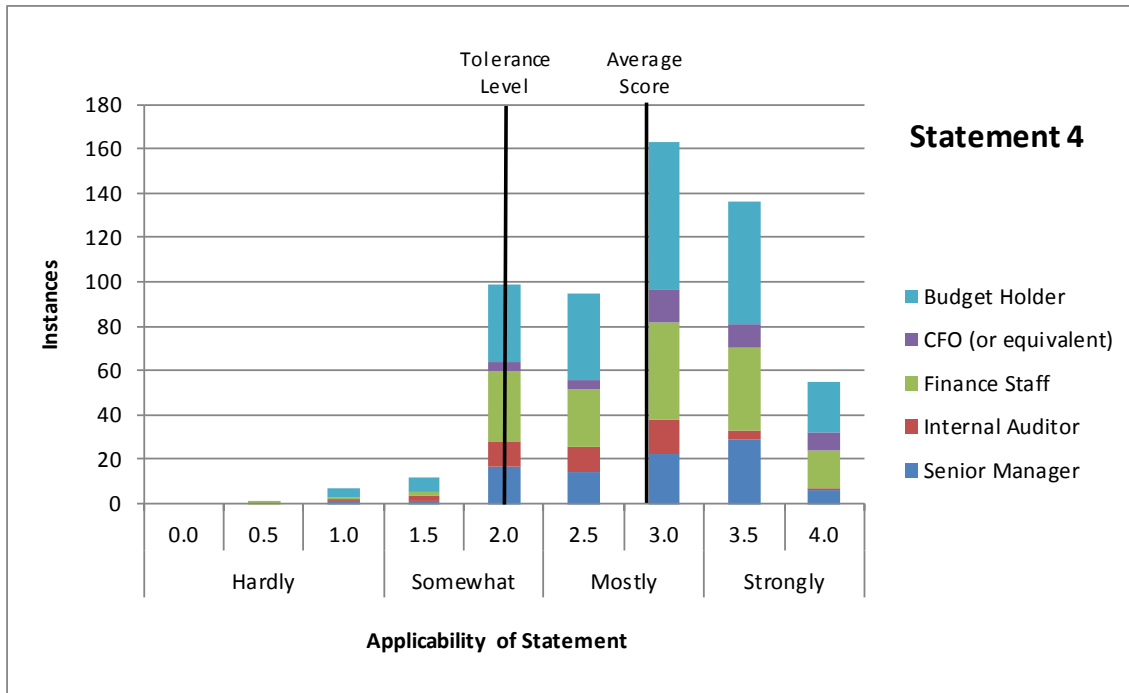
Department staff should be sufficiently competent to fulfil the internal control responsibilities associated with their roles.

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, above the Treasury minimum tolerance level. See chart below.



Respondents reported favourably on the levels of financial competence in departments...

- *A lot of our work is driven by mitigating risk. Basic financial controls seem well defined and designed.*
- *Competency requirements are identified and training available to obtain these competencies.*
- *Finance Business Advisors provide support to fill any gaps in financial management competency of business managers.*
- *Finance department very competent, accessible and helpful.*
- *Good capability in Finance.*
- *Staff with relevant qualifications and experience are recruited to positions of responsibility.*
- *The Finance team is competent in financial management.*
- *The senior management team, and other participants in the department’s governance system are sufficiently competent to fulfil the internal control responsibilities associated with their roles. They are supported by Finance staff present in the districts.*
- *There is a high level competency among financial personnel and generally across other areas.*
- *There is an expectation that managers bring financial management competencies. Managers are also supported by management accountants.*

- *Very strong in finance with additional checks in place as management competencies are enhanced.*
- *We are very well serviced by Finance and staff within.*
- *We operate in a high scrutiny environment where people are actively managing any conflicts of interest, so awareness is good.*
- *The Finance and Performance Team is competent with a range of skills and collaborate with those with financial competency and responsibility across the Ministry.*

and a number reported positively on training and professional development ...

- *All managers receive budget manager training before being given delegations authority in financial systems.*
- *All positions with responsibility for budgets receive appropriate training.*
- *Budget holders are formally inducted into their role covering all responsibilities. System and process training are provided.*
- *Budget manager training in place.*
- *Business Accountants deliver financial management training to budget managers on a regular (at least annual) basis.*
- *Training has helped raised expectations of managers in their roles.*
- *Training sessions have been held for Operations staff in the last 12 months to increase financial management competency.*
- *With the roll out of the competency frameworks, gaps are being identified and corrective actions taken.*

although some thought more effort is needed here.

- *Budget Management training is required.*
- *It is good practice and some managers may encourage it but there is no specific requirement. Internal training has not been offered for at least three years.*
- *Little training is given to managers new to managing budgets.*
- *No formal training that I am aware of.*
- *Supporting training to address gaps and deficiencies is limited, although has been some progress in the last year to address this.*
- *There could be more training of non-finance staff (though recognising that there is very limited budget responsibilities).*

Some highlighted under-resourcing as a problem...

- *Finance resources are stretched, outside of finance financial management competency is variable.*
- *It seems to me that the Finance function is fairly poorly resourced. I remember a former CFO mentioning that the Ministry deliberately pays in the 'lower quartile' and I don't think that attitude has changed. By having that as an un-official policy, we do seem to have a steady flow of finance people that may not be capable or committed to their roles.*
- *New managers generally need support and training to ensure competence - haven't always had this to a sufficient degree previously - this is changing now.*
- *Sometimes resources are stretched in Finance.*
- *Vacancies across the organisation has meant some delays in efficient clearing/approval of some financial transactions (credit cards, travel advances, goods receipting of purchase orders etc.) leading to delayed accounting or payment. However, this isn't a system or process issue.*

while others were concerned about turnover

- *Frequent staff churn makes adherence to the financial management competency framework problematic. The implementation of Finance Business Partners has gone a long way towards solving this issue.*
- *There are some capability gaps in the finance group due to turnover.*
- *Too many good finance staff have departed. We seem unable to attract good ones at present.*

Recent improvements in financial competencies were noted.

- *Definite enhancement with development of National Property Strategy and 10 year financial plan.*
- *Looking backwards the overspend and advice re Crown entity budgets was poor. Mediations for staff being exited and high HR costs shows poor public finance accountability. Contractor costs high and some ELT salaries out of step with similar size departmental agencies. Going forward improvements are being made and issues are being addressed via training and a focus on tighter expenditure.*
- *There has been a marked improvement in the way that finance has supported the business over the last few years.*
- *I believe financial planning is becoming increasingly integrated into performance/business planning.*
- *I have seen this improve significantly over the last 6 months, mainly due to the recruitment of the Strategic Finance Manager, and a competent Finance Performance Specialist for our Business Unit.*
- *It has got better but the expertise needs to realise they are there to enable the districts to deliver the business.*
- *More regular and stringent monitoring is in place.*
- *The transformation of the Ministry has seen a significant lift in the demands for strong financial management skills.*

But current challenges and trends suggest more improvement is still needed.

- *Demand has not been met by proficiency.*
- *Financial competency needs to evolve, for example there is a shift from CAPEX to greater use of OPEX 'as a service' models.*
- *I think the need has increased - I'm not sure we've reflected that with people.*
- *Needs to get better to match our more agile environment we operate in. There is a dichotomy between what finance thinks we should be achieving and what HR and staff collectives allow staff to do.*
- *With greater demands for managing the Ministry's contracts and their increasing complexity in a tight fiscal environment, increasing financial management competency is required.*
- *There has been a definite tightening of the financial position in recent years with a consequential greater emphasis on financial management. Most of it remains driven however by the need to avoid incurring unappropriated expenditure which the public finance act strongly supports rather than encouraging value for money and good public policy outcomes which the public finance act - as a control mechanism - does not encourage.*

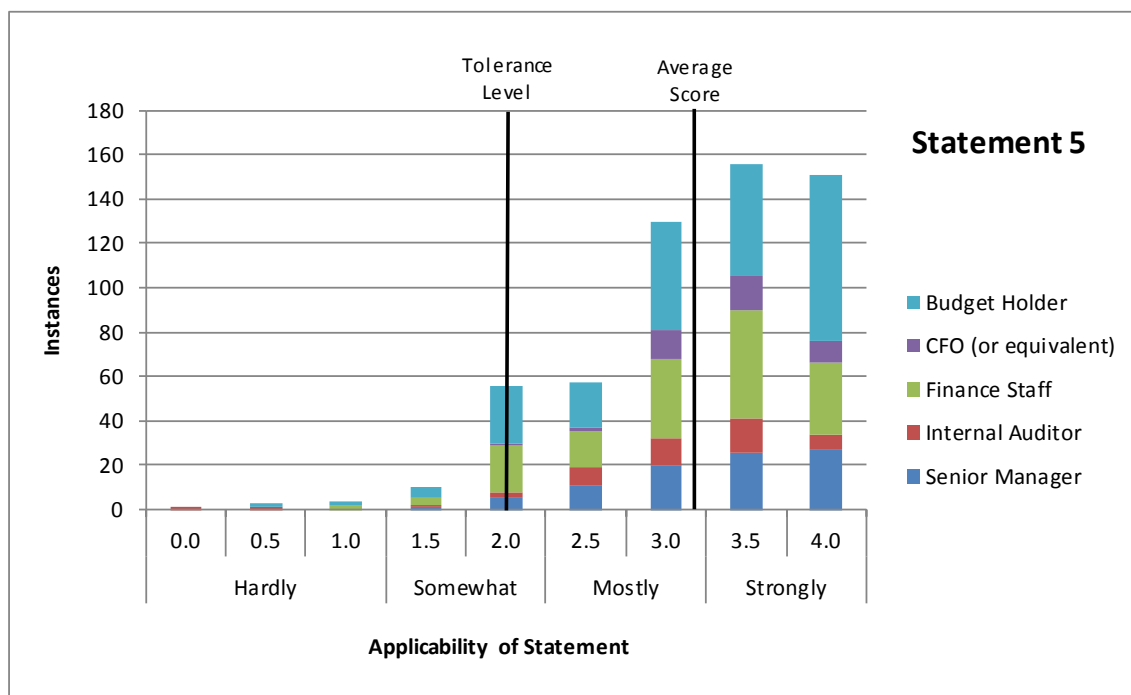
5 The "tone at the top" motivates staff to adhere to internal control policies

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 3.2, above the Treasury minimum tolerance level. See chart below.



A significant number of positive comments were made about the tone at the top

- *I believe we have a very fresh approach to internal controls which motivates and promotes leadership in this area.*
- *It is rightfully seen as important but as a hand maiden to achieving the organisations goals.*
- *The messaging comes directly from the Commissioner, and is amplified by other Executive members like the DC: Resource Management.*

- *Probity, performance and effectiveness are reflected by leadership in all finance management matters.*
- *Strong personal leadership by the senior management team.*
- *The executive (downwards) are very effective at providing examples of appropriate behaviour.*
- *There is a strong commitment to our obligations under the Public Finance Act at ELT and SLT levels.*
- *There is high standards and expectations of standards from leadership. We lead by example and test each other around compliance.*
- *There is good behaviour and good modelling in this organisation. The CEO leaves no one in any doubt.*

And a few observed improvements in train

- *There is clear evidence that Financial Management. Maturity of the organisation has improved over the last 2 years.*
- *This is improving with the change in DG and ELT.*
- *We are a new organisation and the tone from the top is there. This needs to continue as we develop and grow as an organisation to ensure that the messages and tone filters through and is reflected across the organisation as a whole. Further, as we make changes to ensure the controls in place are fit for purpose we need to continue to manage and lead that change well to ensure people understand and adhere to the internal controls.*

Some however noted variances and inconsistencies or what they felt were inappropriate priorities

- *There are some real champions (eg, Deputy Commissioner: Resource Management), but also some Executive members who don't consistently role model a concern for internal controls.*
- *Definitely some areas set the tone better than others.*
- *I do not feel that sound budget management is assessed or rewarded as a matter of course within the Ministry. Savings are asked for every budget cycle but with no acknowledgement or reward for teams who manage to create real efficiencies.*
- *I think management needs to be faster to respond to issues.*
- *One DCE has deemed a set of 'strategic' risks now exists but the lack of ownership and awareness (for how these were determined), has ensured little buy-in by the wider leadership group.*
- *Previously there have been examples of very poor spending by very senior management which sends a poor impression through the organisation.*
- *Some examples where we do not apply the same standards that we would expect of other entities.*
- *The organisation should have done better around financial controls and there was some lack of leadership from the top on this issue.*
- *This is hampered by a lack of punitive action taken against those who infringe. That being said there have been very, very few major transgressions. Most minor transgressions occur through ignorance.*
- *Within my business unit, there is always careful attention to budgets, financial reports and how the expenditure is tracking against budgets. However, other areas of the Ministry allow significant overspend or underspend but don't seem to be held to account for poor financial management.*

6 Internal controls respond to risks

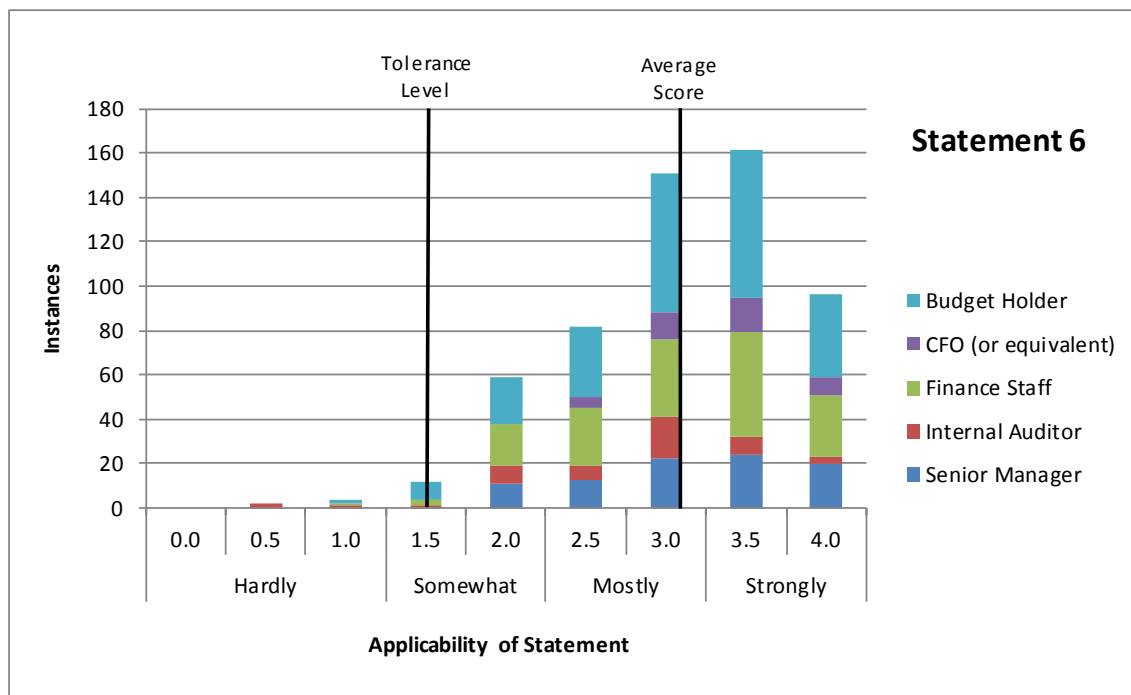
Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

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 3.1, above the Treasury minimum tolerance level. See chart below.



Respondents asserted that regular reviews of internal controls and processes were undertaken

- Annual programme is determined after considering the organisational risk profile.
- Internal Control procedures are reviewed annually.
- Internal controls for key process have been significantly reviewed and improved. New finance system being implemented which will make controls more efficient. Risk management process under development.
- Our internal controls policies were completely re-written about a year ago. We are already working on a revision of these to ensure they remain fit for purpose.
- Periodically to ensure fit for purpose and to align to changes in organisational structure.

- *Policy and Procedure is reviewed on a cyclical basis. The internal control environment was reviewed in early 2014 and Finance has been working on improvements to processes since then. Key internal controls are monitored on a monthly basis.*
- *Several key controls have been updated over the past year. Internal audit function assists with identifying areas where further focus is required.*

Some pointing to the role that internal audit plays.

- *The Finance Group, and Assurance Group box away at these from time to time, but it's less clear how often the People Group or other functional groups roll up their sleeves and go through this process.*
- *These are reviewed primarily through the activities conducted by the risk and internal audit activities. Internal controls are reviewed in response to risks and incidents.*
- *In my experience the Risk and Assurance team are very contactable and very responsive.*

A number highlighted improvements that were being made or challenges that need to be addressed.

- *Some aspects are still "work in progress" as shared services starting to be separated out, but I know where to access the relevant guidance and advice.*
- *Detection capabilities are less mature than prevent. Investigation capabilities (especially digital/data forensic capability) sits in between the other two in terms of maturity levels.*
- *Further improvements are in train regarding enhance whistle-blowing policy and the application of analytics to enhance detection and continuous monitoring of fraud.*
- *This is an area where we are working over time to review the alignment of controls with the Ministry's organisational risks and risk appetite. We inherited or adopted our predecessor's policies and controls on establishment.*
- *To date has been largely focused around external audit, team now established to implement an internal assurance framework which is in early stages of development.*
- *We have made significant improvements over the last six months, but still have more improvements to make.*

A reassuring number were able to confirm good escalation processes and action taken when breakdowns occurred

- *A report following an internal fraud last year was acted on very quickly.*
- *I will talk to my manager, if I am aware of any irregularities.*
- *In projects the escalation path is very clear under the Capability Management System and Framework. At the organisational level, the Ministry is small so it is easy to escalate issues and know who to talk to.*
- *Number of ways to escalate issues to SLT. Regular reporting, weekly meetings. CFO at the table Proactive and timely response to issues raised and reported.*
- *The Risk Management Framework specifically addresses risk escalation and settings are also built into risk review cycle requirements. Escalated risks that meet the threshold for ELT reporting are picked up in the ELT Enterprise Risk Report.*
- *The risk management framework includes clear escalation paths.*

But a few thought that controls were too burdensome.

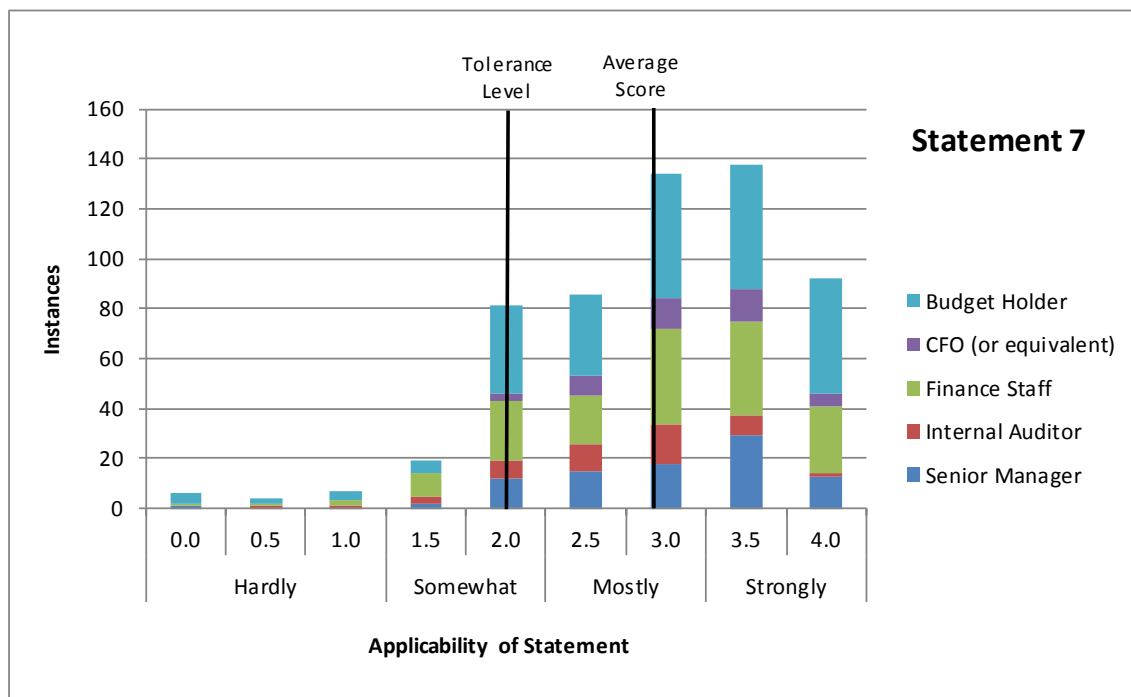
- *Internal controls are for my taste too focused on absolutes and are risk averse. Internal controls which require managers to make risk assessments and provide greater flexibility to determine ways forward based on risk assessment would be good. We are trying to do this in projects in my part of the business with differential processes available based on assessments of risk.*
- *We are perhaps too controlling, which inhibits innovation and ability to initiate change, adopt new technology. Our own security requirements make it hard to innovate in was we procure and pay.*

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.



Communication procedures were generally considered to be good

- *Clear guidance on Intranet, support from Business Advisors (situated at the districts) and Business Services Managers are good indicators that all staff involved in financial processes are fully aware of the requirements. Before the year-end e-mail is sent to all budget holders reminding them of what the requirements are (outstanding invoices, staff claims, timesheets etc.).*
- *Clear process, with responsibilities and escalation paths in place.*

- *Finance will send regular reminders, work proactively with budget-holding staff, and ensure planning is in place for all financial processes including baseline updates, carry-forwards, accruals and reporting.*
- *Reiterated when needed but usually clearly articulated in end of month/end of year instructions to Cost Centre Managers, Procurement Staff etc.*
- *The organisation uncovered an attempt to defraud us. This was communicated well and served as a reminder of the importance of doing things properly.*
- *There are robust procedures to follow and support from HR is always available.*
- *There are routine conversations, reporting and periodic events that take place regarding communication about internal controls.*
- *We have done some good work in this area to improve knowledge and process.*
- *We have strong policies on this including "Speaking Up".*
- *We do have regular communication across hierarchy which includes Finance, as well as, discussions at the District's Leadership Team meetings. DFAs, Travel, Policy, and Internal Control policy are available on Intranet.*
- *The organisation has a robust and mature self-investigative authority. This has been tested on one occasion in the last five years.*

And a number of recent improvements or improvements under way were noted

- *More internal communication about key policy and procedures is planned.*
- *Starting to gain pace as organisational policies are reviewed, updated and communicated to staff.*
- *The introduction of new automated systems has highlighted the importance of training on internal control and communication of expectations in terms of staff roles and responsibilities in achieving best practice.*
- *This is improving with more frequent updates on the intranet and internal newsletter.*

Although some wondered about communication outside their immediate area.

- *We do have roles where this is not important. Part-time Support Workers are hardly ever in the office so they will never be engaged in financial processes.*
- *Certainly communication is provided - not 100% sure how well this is translated/focused on across the various business groups.*
- *Finance staff and at manager level and above Yes. Process seems to be changing on a monthly basis at the moment so keeping up with these updates is difficult in the absence of clear communication on financial approval procedures for the coming financial year.*
- *Finance staff yes, there will be some variability across the rest of the department.*
- *Huge compliance effort for some things like Purchase card, very little for some others.*
- *Not across the business - only in specialist areas.*

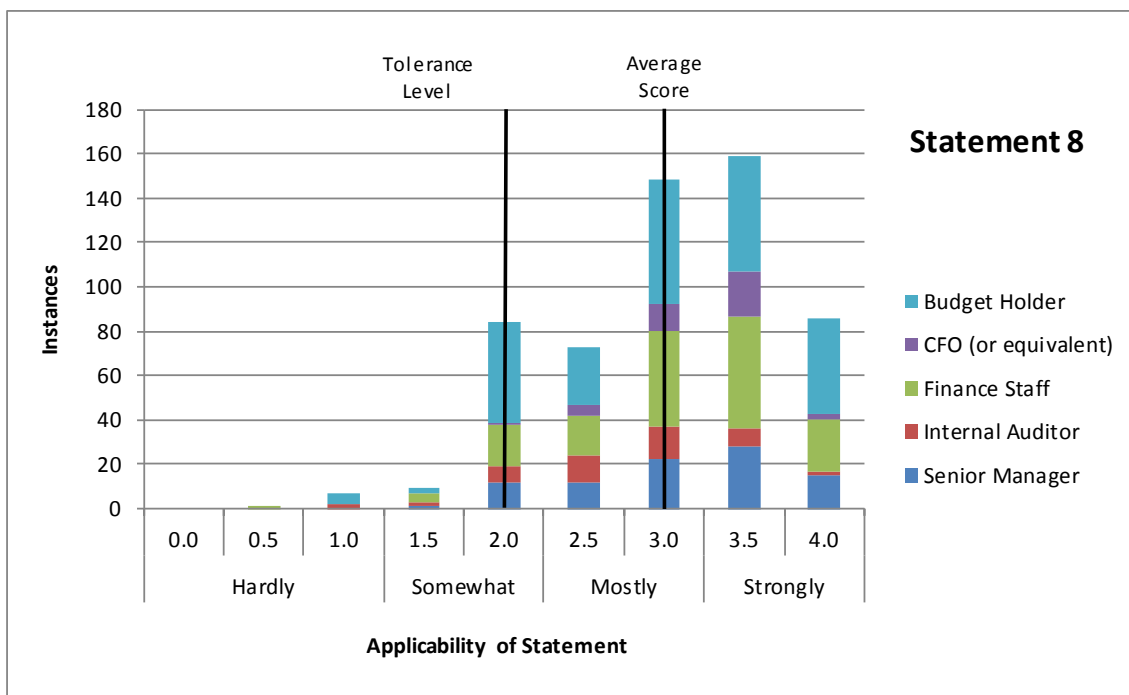
8 The department regularly monitors and evaluates controls

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, well above the Treasury minimum tolerance level. See chart below.



A number of respondents positively commented on processes to monitor and evaluate controls

- *Regular quarterly internal control is in place with annual review of internal control policy.*
- *Finance are very careful about compliance and review all work plans and business cases to ensure relevant laws are followed.*
- *Finance monitors key internal controls on a monthly basis to provide assurance to the CFO. Delegation changes are checked regularly and monthly reconciliations are in place.*
- *Multiple monitoring including quarterly reporting, audit review, monitoring by managers and compliance enforced by automated delegated authority in relevant systems including FMIS.*
- *Quite zealous in fact.*
- *Regular scheduled review and updating of the effectiveness of controls.*
- *There are several layers of checks starting with site Manager the resource assistants and the National Accounting Centre.*

And reported on action being taken when breaches occur

- *Any instances of internal control breach identified or raised are investigated with appropriate corrective action taken.*
- *Breaches detected are investigated, corrective actions proposed and often taken.*
- *Most breaches have been in the area of non-compliance with MBIE government rules of sourcing for open advertising goods and services over \$100k.*
- *Actual or potential breaches are thoroughly investigated.*

Annual legislative compliance checks have become the norm

- *An annual legislative compliance review takes place.*
- *Annual compliance survey completed by policy owners.*
- *Annual comply with survey as well as reporting to Risk Management Committee.*
- *Do an annual 'Comply With' survey.*
- *The Department undertakes a Legislative Compliance Survey each year using the compliance side of the ERMT tool. This includes confirmation of compliance with the Public Finance Act.*
- *We do an annual legislative compliance survey.*

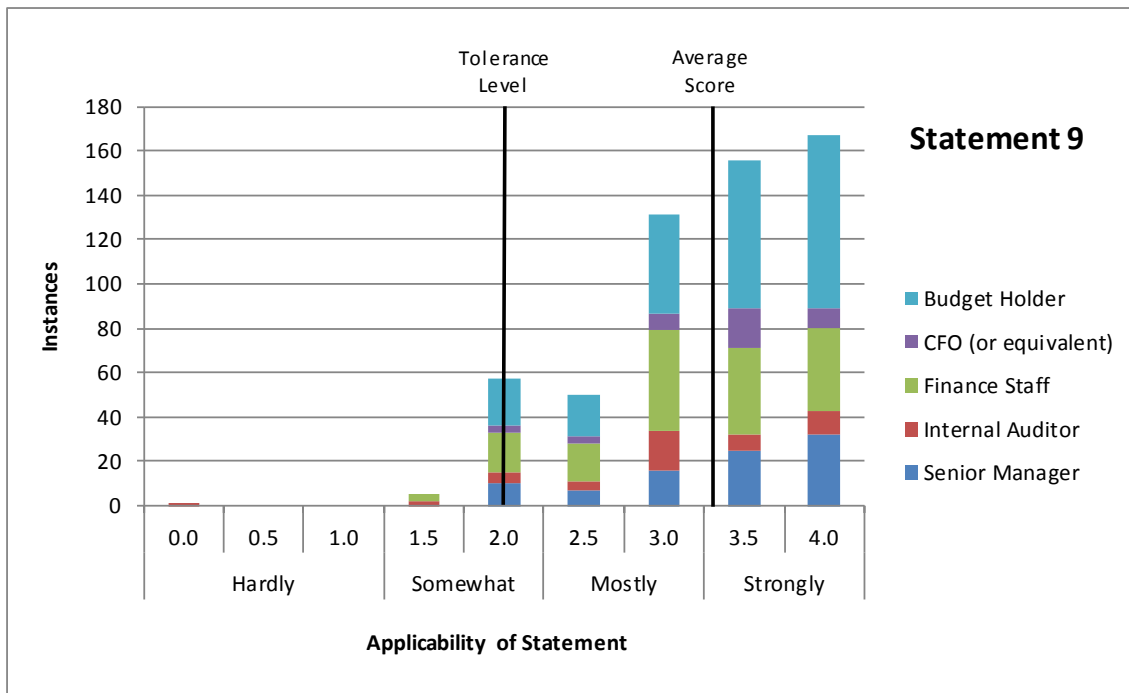
Although some respondents thought more could be done in this area.

- *It's a bit hit and miss... and mostly feed from the bottom-up, rather than seeming to be something which the senior Exec are calling for.*
- *It's a bit patchy, but I know that the Assurance Group and Finance Group, in particular, are looking to do more in this space.*
- *Patchy - strong monitoring of some internal controls, no monitoring of others.*
- *The system is completely reliant on personnel with delegations to approve purchases etc. to have full knowledge and understanding of with they have been asked to approve in regarding financial procedure and rules.*
- *We could do more to develop and enhance monitoring and evaluation. This will take time, as we build capability internally, and work through and review our policies and controls.*

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 3.3, well above the Treasury minimum tolerance level. See chart below.



The prompts for considering this statement included questions on the effectiveness of audit committees, and on openness to and resolution of public complaints, and whether the organisation consistently meet its obligations under the Official Information Act 1982.

A number of respondents noted that their organisations were open and transparent

- *Proactive release of information through website, and Ministry seeks to fully respond to OIAs.*
- *National call centre in place. Website complaints recorded. Multiple avenues. Public... surveyed.*
- *(The department) fulfils its statutory obligations and takes many measures to meet public expectations of transparency and honesty.*
- *Transparent to staff, central agencies including audit and select committee.*

Although, some felt that improvements should be made

- *We have a complaints team and complaints process. This is something we are working to improve.*
- *Could do better.*

- *Constantly in the public eye. Staff and agency are under scrutiny and pressure. Tendency to sweep issues under the carpet but issues often leaked as low level of trust internally. Results of staff survey in 2016 not released. Siloed approach means uneven access to information and inconsistent approaches to difficulties. Staff find out bad news via media or OIAs.*

Smaller departments uniformly reported that they do not have an audit committee, while larger departments uniformly reported that they did. However some comments suggest the stability and sustainability of these Boards is an issue.

- *We are in the process of setting one up.*
- *Due to the change of Chief Executive the Audit Committee was "paused". It has recently been re-instated with a change of membership.*
- *Re forming after some resignations.*
- *The quality of people on our committee is variable and we haven't used it as we could. That is changing.*

Respondents also reflected some assurance from Audit Office reports with issues being of a minor nature

- *Audit reported a number of minor process issues and recommendations for enhancing risk management framework.*
- *Only minor weaknesses identified by Audit.*
- *Some issues relating to procurement (retrospective contracts).*
- *There was one area rated "Needs improvement" with some recommendations for improvement. All of these recommendations have been implemented.*
- *There were a couple of minor insignificant matters raised which has since been addressed by the organisation.*
- *There were no recommendations requiring urgent attention. Other issues are being worked on and monitored.*
- *Yes it was free of any major weaknesses.*

Finally, respondents noted improvements that were underway in meeting OIA requests

- *During the year a number of factors contributed to not meeting the timeliness targets of the OIA. Interventions have been made that have resulted in a material improvement in the results.*
- *Have been previous timing issues but these have now been resolved.*
- *Have improved performance considerably over the last 6 months, but still not 100% compliant yet.*
- *Improvement is required and is a priority.*
- *Significant improvement in regards to OIA responses and engagement.*
- *This had been a problem area, but appears to be on a better footing for now.*
- *We are doing much better than say 3 years ago. We are not in the Treasury space of consistent proactive release, but we release far more than we did before, and communicate much better to requestors when we (partially) withhold why we have done this. We also rely much less than we could on the substantial collation and research ground - that's a good thing ie, we are committed to disclosing more.*
- *We are very aware of our obligations and attempt to meet them but do not achieve 100% compliance. We have put in place measures to improve compliance in the last year eg, SLT monitoring.*