

# Analysis of Responses: ICAT<sup>1</sup> 2017

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

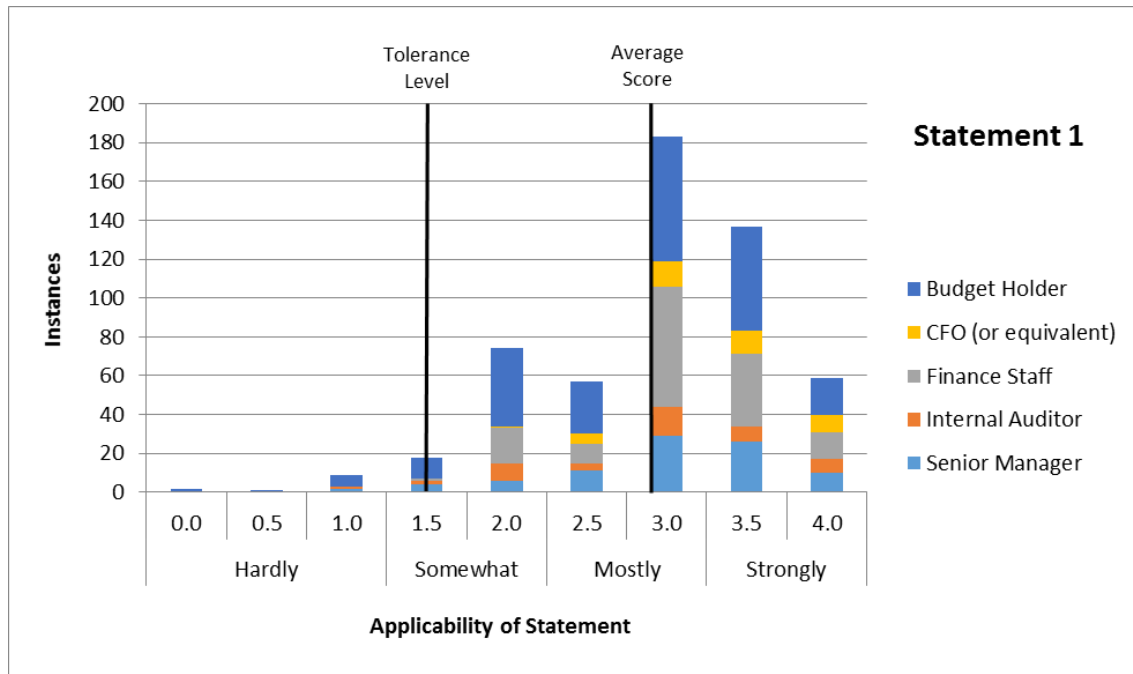
Internal control should be used to support departments in achieving their objectives by managing risks, while complying with rules, regulations, and organisational policies.

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 2.9, well above the Treasury minimum tolerance level.



A number of participants were very positive that internal controls support their department objectives...

*Internal controls are generally effective and this is has been verified by internal and external audit work.*

<sup>1</sup> Internal Control Assessment Tool

*a very strong control environment where actions and activities are policed with strong structured approval procedures/policies*

*Perfection is difficult but well along the road*

*The Ministry has worked diligently to introduce a risk culture at all levels. The advantage of a small organisation is that risks almost identify themselves as no part of the business is invisible to Managers.*

*Very strong at this aspect ... direct linkages and meets the expectations set by the Executive*

*Risks and associated controls are aimed at helping to achieve objectives and protect the Ministry (including reputation, people, resources etc.). Work to improve the maturity and value of risk management will help to ensure internal controls are effective*

*We are going from strength to strength in this area*

*Strong alignment between risk assessment and Ministry's objectives*

while others noted that this is an area where improvements were being made.

*Lots of positive development in this area in past 12 months, in my view*

*A programme of improvement is underway*

*has been a focus over last two years,*

*The building blocks are all in place but the practice is still being embedded*

*There is work underway to further clarify the strategic objectives, outcomes, and impacts the organisation is seeking to achieve. Until this work is complete, it will be difficult to align internal controls.*

*Very good internal controls over production. Maturing controls around other organisational risk areas.*

*A new organisational structure and model is being put in place to improve the alignment of resources to priorities*

*Currently implementing an integrated planning process*

*Good progress occurring linking planning to strategic objectives and priorities. Need to continue to develop longer term planning*

*Priorities clearly articulated, and resources assigned. Always having to manage conflicting resource demands.*

*Strategic refresh well-advanced, with planning to implement agreed goals to occur this month*

*The strategy and strategic positioning are being refined. Increasingly it will be possible to show this over the next year or so*

*This is an area of ongoing focus and improvement*

*This is getting better year on year*

*The Ministry has put in place a new governance group to manage the Ministry's work programme. This is a new initiative and is just bedding in*

*A more comprehensive risk management framework is being prioritised by leadership team*

*New controls and training/awareness around key policies and procedures (particularly procurement and recruitment), brought in*

*The Ministry has a risk management policy and guidance. A new Risk Advisor appointed recently. Since this appointment, work has been done with leadership groups to identify and assess key strategic and operational risks; risk management policy and methodologies are being reviewed and updated as needed, including risk appetite guidance*

Some challenges were noted in establishing the integration between objectives and internal controls, particularly in articulating a risk appetite ...

*Risk remains a little delinked from strategy and risk appetite needs work*

*The Ministry's risk appetite has not been articulated. The Ministry lacks methodologies for assessing risk*

*The policy is comprehensive and has good internal visibility. The only thing which could perhaps be clearer is a statement regarding the Executive's risk appetite, although some work has been on this recently.*

*The challenge is if and how these are used. Are in the early stages of understanding benefits of active risk management and this is especially true as the risks become more complex and systemic*

while another challenge was balancing the need for differentiated approaches and consistency within departments.

*On the notion of risk appetite however the organisation has chosen to articulate this via the risk rating frameworks as a practical measure, rather than a generic statement of how much risk the organisation is willing to take. This is a more mature way of handling what has become a vexed issue in practice. Many organisations are either unable to properly articulate their risk appetite, or once articulated, are unable to practically operate within its boundaries.*

*Within each portfolio area there is a pretty good link through to strategy. I think we could do better at prioritising and being flexible across portfolios. I also think that operational delivery sometimes deviates from strategy to take into account local pressures.*

*The risk management framework is used across multiple areas and multiple risk registers e.g. security, health and safety, organisation and strategic risks. This allows commonality of terms and approaches to be used.*

*The risk management strategy has a customer focus with different dimensions, dependent on the specific area*

*In some areas we do this, although with refresh of Risk Management Framework we are seeking to make this uniform throughout the organisation.*

Balancing these positive comments, some felt that internal control and risk management expectations needed to be clearer ...

*Internal controls can be opaque at times, and difficult to understand and communicate.*

*Little guidance on how to link fiscal planning at manager level to objectives (other than through conversation with superior)*

*The importance of internal controls has a low profile in the organisation*

*There are HR & Finance controls in place however it is not clear that this constitutes full cover and links to the Departments over vision and objective*

*Not always clear linkages between the objectives and controls on place*

*This is an identified gap*

*Risk management strategy and policy is inconsistent at best ... and in total confused*

*Planning is not evident at a site level. When you operate at a site level and are struggling to provide a service due to reducing staff numbers having information relative to these strategies might support us all to understand the bigger picture*

*The Ministry's risk appetite has not been articulated. The Ministry lacks methodologies for assessing risk*

*Risk management as a formal discipline has lost its way over the last few years*

or needed updating.

*I am uncertain whether our risk management strategy and policy is up to date - we previously had a risk advisory committee that had regular reporting against a risk framework, but I do not believe this is currently operating*

*Risk management documentation available to the Ministry is about three years old*

*There was, but we've let it lapse (i.e. it's not up to date) ... a fundamental refresh is overdue*

*Internal controls are so out of date and don't change as systems and processes change*

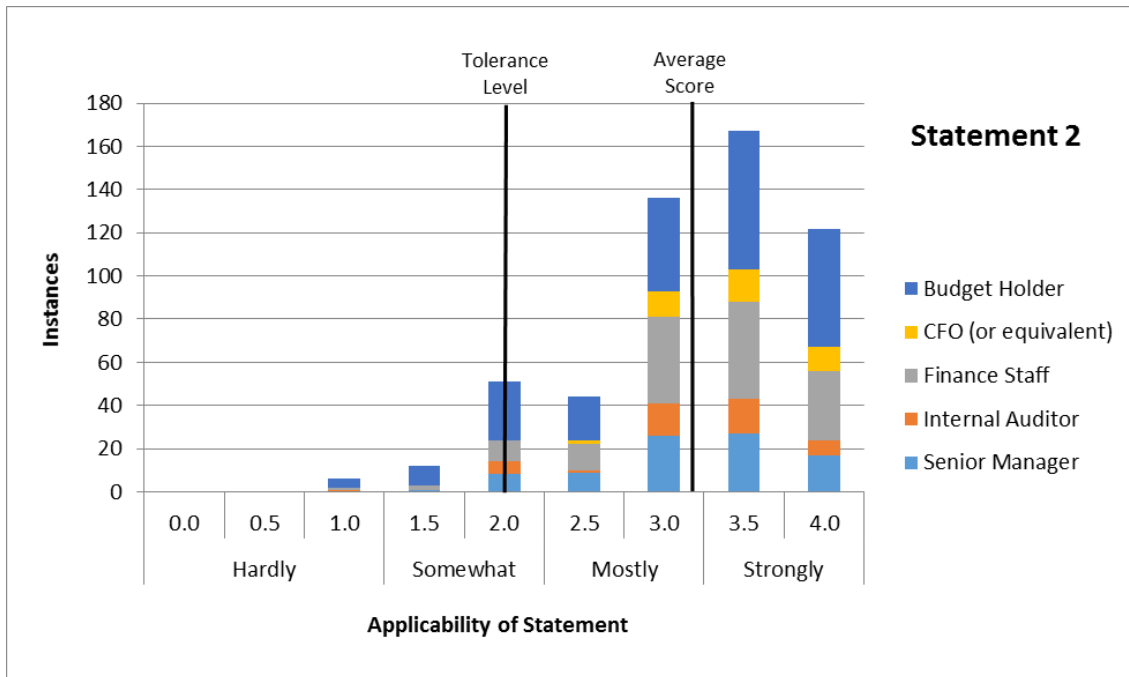
## **2 Do internal controls reflect roles and responsibilities?**

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, particularly with strong hierarchical cultures, were able to provide strong assertions over clarity of roles and responsibilities, ...

*The system of allocating finance advisors to groups is excellent and provides a clear contact point for divisions, units and staff members to approach for advice.*

*Roles and responsibilities are clearly defined in position descriptions*

*Finance staff have clear roles and responsibilities, Districts are supported by business services staff*

*a comprehensive financial delegation policy which covers the Chief Executive right down to individual Cost Centre Managers*

*Clear Policy, Systems and Processes in place. Monthly reporting throughout up to Executive, detailed analysis and review*

*The plans are clear and articulate with regard to resources available or required, and clearly spell out the individuals responsible.*

*I know what I am accountable for and can find clear explanations easily*

others were however less sanguine ...

*Risk matrix process and genuine accountability unclear in some areas*

*Some things are quite clear and there are pockets within the organisation where there is a lot of clarity however there are also areas where it is quite hard to work out who is responsible for what.*

*I've struggled to get confirmation from higher up on what roles were specifically assigned*

*My impression is that delegations are complicated and not always well known*

*Structured arrangements do not exist*

*you don't have to be a card-carrying accountant to have responsibility for a budget but you do need to understand how to have a plan, do a forecast, monitor against it and follow procedures to ensure there isn't an overspend and gleefully hand back underspends throughout the year.*

with some pointing to complexity in operating models and structures ...

*The organisation is a very complex one - multiple domains and a functional structure. More work is required to more systematically allocate accountability and responsibility across the organisation.*

*There are documented delegated authority schedules. Due to the complex nature of our organisation, these can be difficult to interpret if you are unfamiliar with them. Delegations are being updated as legislation changes, and managers do need to be aware of these changes.*

*There are a large number of portfolios within the department which involves some levels of cross functionality. At times it can be difficult to know who the appropriate decision maker is.*

*One of the rationales for reviewing the Ministry's structure and operating model is the need for greater clarity of roles, responsibilities and accountabilities. This includes in the Finance area.*

*Responsibilities are not clear as not always in line with portfolio which blurs lines of accountability*

*Funding and financial management has tended to be silo-ed within business groups, and individual behaviours have not resulted in any consequences in my opinion. Some attempts to break out of this are occurring, for example by the establishment of strategic financial management principles.*

while others were concerned about resource capabilities and turnover.

*Resources are named but it's not clear whether they always have the capacity to give the required attention*

*Very large turnover of senior and intermediate finance team in last year including CFO so very much a state of flux and you have to start again with who is who on frequent basis*

*Formal financial delegations are made however responsibilities for budgets are not always clear. Although nominally operational managers have responsibility for cost centres, senior managers and others determine expenditure for which I am held to account.*

*We have individuals named as the risk owners. I don't believe we could say that we have "properly resourced actions plans".*

*Too many restructures in finance. A lot of confusion both for finance staff and the business*

*There have been several changes in the Finance team over the last couple of years. Contact points have changed and not always well communicated.*

*High staff turnover has meant things are a bit unclear*

*We have had a reasonable turnover of staff in the Finance Team and currently have a lot of contractors, which can always create a bit of uncertainty about who to go to*

Clear responsibilities lead to good relationships between finance and operating divisions ...

*Good support provided by finance. Business groups benefit from having close point of contact with finance.*

*Each national office group has a Financial Business Partner allocated to it where all financial queries can be directed.*

*Excellent finance business partner relationship across the whole customer services are present and operating*

*The contact people are well defined and helpful when engaged. For someone from the private sector with limited public sector finance experience a key challenge is knowing what questions to ask and when.*

and some respondents highlighted mechanisms to reinforce clarity over roles and responsibilities.

*All Budget Managers sign Statements of Responsibility to give CE confidence*

*Budget Managers are asked to sign off a statement of responsibility as part of our year end processes. This is then provided to DCEs for sign off before submitting to the CE for completion.*

*Everything is clearly articulated around fiscal management and regular updates are provided.*

*Each Manager has a budgetary advisor in Finance who regularly prepares briefing papers.*

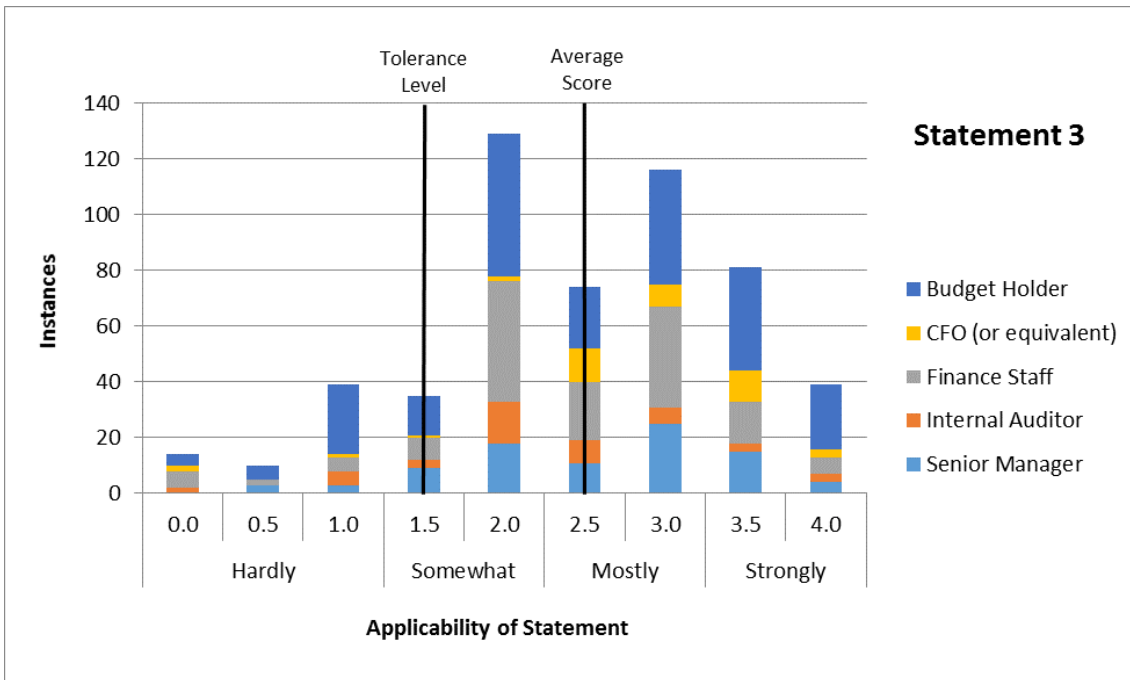
*There is a strong policy of circulating and reinforcing delegations. These are reviewed regularly.*

### **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.



For many, individual accountabilities are very clear.

*I am responsible for a budget and my performance is assessed based on how well I manage my teams within that budget.*

*The group I am in regularly meets to discuss budgets and any concerns are escalated to be addressed*

*Financial Management is everyone's responsibilities - all budget holders have financial management expectation*

*If you are a budget manager it is part of your objectives*

*Financial policies make it clear that prudent and value-for-money considerations are expected at all times regarding expenditure decisions*

*The strengthening of our procurement function has helped guide managers to value-for-money decisions. This is helping hold managers to account.*

*There is an element of my annual goals/objectives appraisal linked to corporate governance/contribution to the executive and that is clear to me that I am being assessed on my planning, budgeting and risk management activities.*

*Letter of expectation clearly outlines my accountability in terms of budget, and specific areas of focus if any in that year for financial management.*

*Expected to deliver programmes /outputs/staffing within agreed budgets.*

*Budget and financial management are standard expectations in performance appraisals.*

*Required to manage financial risk. Required to attest every quarter to managing finances appropriately*

*There is strong accountability to ensure that managers come with budget and that managers do not exceed authority*

*Roles and responsibilities are clear. Managers very readily adopt the right behaviour and approach to their financial monitoring and decision making.*

*Yes. Effective and efficient resourcing is abundantly clear in my appraisal discussions and this is the major driver of cost in my areas of responsibility.*



A number of comments focussed on the lack of authority to exercise discretion over levels of acceptable risk.

*Almost to the point of overkill. Have budget but micro management of it by corporate. The areas of sensitive expenditure are at extreme that managers end up paying for team, staff stuff out of own pocket. The fear of front page Dom Post overwhelms sensible administration. Very difficult to celebrate milestones, reward staff in meaningful ways now*

*There is a very centralised approach to delegations at present, therefore difficult to hold managers responsible.*

*Team Leaders do not have budget requirements; Service managers ensure appropriate discussion take place*

*As the budget holders have small discretionary funds, this question is not as relevant as is intended*

*Financial framework (budgets) don't necessarily align to strategic priorities, operational reality and headcount of my business unit which creates issues in terms of actual performance against organisational goals vs. end of year \$\$ outcome.*

*If for example, I am sponsoring an investment from which emanates planned cashable benefits then I am rightfully held to account. But if decisions are made outside my control (like reducing my allocation for delivery to performance standards below what it takes to deliver) then there cannot be a requirement to hold me to account because someone else decided to undercut me.*

*Service Centre Manager have a lot less budget responsibility - think this should change to what we had previously - each SCM has their own budget allocation and responsibility*

*Operational managers generally have little discretion over budgets, with most core spending (recruitment, travel, assets) allocated centrally*

Some respondents considered culture to be more important than formal processes, both positively and negatively.

*...my motto to managers is "treat the money as if is your own!". They are aware our funding is public money and as such we have a responsibility to use it wisely.*

*There is very little that is hardwired to the performance objectives. The only thing that is for managers is staff engagement but then the measurement of this has now been moved to after the appraisal date so it can't be measured. Individual managers are variously good, bad or indifferent depending on what they personally value.*

*there is a strong culture of value-for-money awareness in the Ministry.*

*All that have some fiscal responsibility are held accountable and, within my teams, all without fiscal responsibility are guided around fiscal competencies to support future development*

*Any identified breaches of internal controls, adverse internal audit reports, and/or other management issues within a cost centre/business unit would automatically become part of an informal performance discussion.*

*There is a strong expectations of individuals understanding and working with the financial controls. This is less a question of the performance appraisal system and more a question of the values/culture/ expected behaviours in the organisation.*

*Obviously poor performance would be identified and remedied, but not a culture of building/improving financial capability*

*Enduring accountability for VFM could be culturally stronger*

As in previous surveys, some felt there are insufficient meaningful consequences for financial and performance results ...

*I don't see that budget holders who have not forecast their budget accurately several years in a row are assessed on their financial management competency.*

*Financial outcomes could be linked more to job descriptions and performance appraisals*

*Insufficient weighting is placed on achieving financial expenditure targets*

*The Dept has no meaningful consequences in place for poor performance and financial outcomes*

*There isn't enough accountability for people who don't balance their budgets, or who don't follow appropriate delegations*

*Except in extreme cases when things go wrong- there is NO meaningful consequences*

*For example, under-expenditure (sometimes significant) does not appear to have any consequences for relevant division or unit managers.*

*In terms of a favourable under spend there is not much cognizance taken of that*

*One large area which is lacking is the harvesting of benefits. Decision makers are not strictly held to account to deliver the benefits a project board / sponsor has signed up for.*

*The lack of tension in the system means there is no real edge to it all*

*I manage my budget. I'd be interested to know what meaningful consequences are and what the criteria are before these consequences are applied*

*Value is discussed but I'm less sure about meaningful consequences.*

*There are no obvious consequences for those managers who spend over or under budget.*

*I am not aware of individual managers' consequences for their decisions but am aware that value for money on decisions is an important consideration by managers.*

*Discussions on value for money are often had (though more focused on the money rather than the value piece) - however, there is no systematic consequence for achieving/failing to achieve value-for-money*

although, there were a number of comments that performance appraisals fulfilled a different purpose.

*We are moving away from performance appraisals and focusing more on coaching*

*Our approach to performance management has changed this year and there are no generic statements that are required in all reviews. Some people may have them in there's but it would be ad-hoc across the organisation*

*Code of conduct, Procurement Policy, Delegations Policy, Budget holder – Financial delegation guidance, Sensitive Expenditure Policy, Integrity Policy all outline accountability requirements. Consequences could be made more obvious, with people obviously being held to account.*

*This question needs to be approached with caution. It assumes that there is linear accountability for this - often there are dependencies that rely on other people/teams inside and outside the organisation.*

*It used to but we have moved to more of a one pager goal focussed review*

Finally, although the survey was sent limited to budget holders, senior managers and finance staff, a surprising number disclaimed responsibility.

*The context for my responses is as a contractor not directly involved in the performance management process*

*As a contract project manager this hasn't been relevant to me*

*I do not (as not a manager) have financial management competencies, however due to my role within the team I have high financial management competencies thru the nature of my role working with business managers.*

*I am a contractor*

*I am on a fixed term contract and not subject to performance appraisal.*

*Statutory appointment by Remuneration Authority*

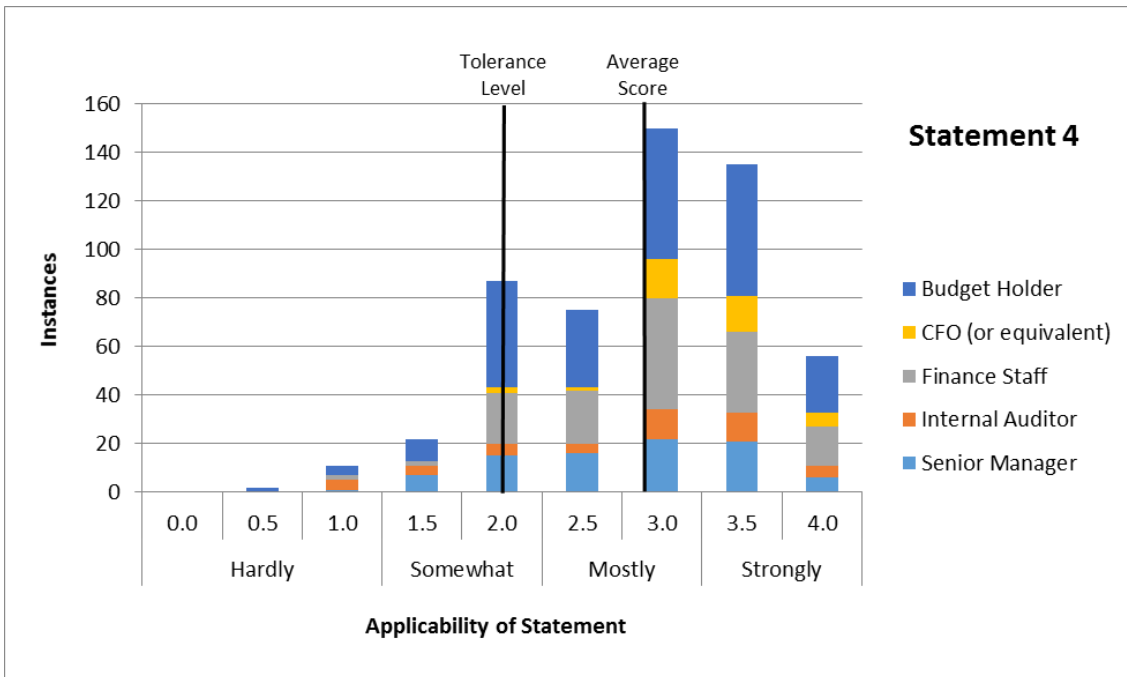
## **4 There is sufficient competency in fulfilling internal control responsibilities**

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.



Not only did some departments attest to good levels of financial management competence ...

*Excellent support from Finance & Planning across whole of business unit*

*Overall I would say there is good financial competency*

*Great finance team that are very knowledgeable and approachable. They tend to turnover quite regularly though.*

*Workshops are held to ensure budget holders are aware of and understand their financial management responsibilities, including budgeting, monitoring and reporting.*

*Budget holders are formally inducted into their role covering all responsibilities. System and process training are provided.*

*There is a financial management competency. There is training provided through the departments training and education/professional development programme.*

*Mainly due to high level of competency of finance staff and strict control exercised by Finance division.*

*The competencies are fit for an organisation of its size. It has been favourably reviewed as sufficient in a recent PIF review and by Audit NZ in recent audits.*

*Have been very impressed with level of financial understanding by cost centre managers and above*

*There is better access to financial management data in real time and a relatively simple financial management system in place.*

*Line managers who make use of financial tools are able, and the system generally pushes them to, access excellent Finance and Legal guidance and support*

*Financial management competency requirements are clear*

a number noted that there are significant improvements underway ...

*Recent progress in raising awareness, clarifying expectations and planned workshops for budget holders are evidence that the organisation is building competency to fulfil its internal control responsibilities.*

*I think this has increased due to the increasing financial pressure the Department was under over the last few years.*

*There is awareness that with growth, financial management competency needs to increase.*

*New structure design has led to higher demand in financial management competency*

*We still have aspects of this in development as we advance through the 2nd phase of the Finance Transformation*

*The Ministry's competency and performance framework is being redefined*

*Currently rethinking core capabilities as part of the business transformation programme*

*We have had a real focus on responding to growth by becoming more effective and efficient. This has caused managers to have to have a greater focus on head counts, roles and financial spend.*

*Internal control environment is currently being lifted strongly*

*There has been a significant shift since the change programme four years ago - but there is a way to go to imbed the importance of this competency*

*Much stronger focus in this area*

and training and development programmes to improve competencies were commented on positively ...

*Some excellent training has been provided by the finance team this year.*

*I sense that the relationship between financial manager and cost centre manager involves tuition as well, mostly on the intricacies of our FMIS*

*Leadership and management capability is an area of focus for organisational development. Modules are being developed to specifically increase capability in relation to financial management (budgeting and forecasting), along with planning, people management, and performance management.*

*We are in the process of upskilling managers in the business outside of Finance*

*Training is required for budget managers*

*Managers are not given approval access until completed training conducted by financial teams*

*Financial management competency training for managers is an ongoing focus*

*All Cost centre managers are provided training by Finance Branch*

*Training is provided and there are clear responsibilities assigned. However not sure that this extends to specified competencies. There is strong support though from the finance team to support you*

although some felt that training needs were not always being met.

*Assistance and training available but not always used or effective.*

*New managers do not receive financial management training and acquire knowledge on-the-job. Assistance and guidance is provided when asked.*

*As far as I am aware Managers are not required to have any financial qualifications or formal training.*

*No formal training in financial management required for budget holders but some understanding of public service funding is expected.*

A number of development needs were identified ...

*there are a few gaps in the finance team; we want to move towards being business partners and providing valuable advice rather than being stuck down at the transaction level. I think across the budget managers' experience and competence varies greatly*

*Requires further development to ensure managers have the skills and information to carry out their financial management responsibilities*

*Managing cost centres and getting the phasing right across the financial year is always tricky; We are putting additional training in place*

*Finance capability is improving, but we need to expand this more purposefully across the organisation*

*Increased emphasis on long term planning, and whole of life costing, as well as better commercial outcomes*

*The business and balancing expenditure to achieve our business is more complicated*

*We still need to develop forecasting and planning skills (specifically prioritisation)*

with a number of respondents differentiating between the financial competencies of finance staff and budget holders, noting the most need for improvement by line staff/

*Definitely in finance. Other areas particularly offshore patchy.*

*There is excellent financial management competency in Finance and related divisions, but not so evident in other divisions.*

*Most managers are heavily dependent on finance staff and do not have appropriate training.*

*There is sufficient financial management competency within the finance team but I'd question whether every budget holder across the Department would have the appropriate financial management competencies required for their positions. It seems there is no requirement for this and no training provided when you move into a position that has responsibility for a budget.*

*Finance use a framework - but there is not traction outside of Finance*

*Good with finance staff and specialist advisors. Average with some line managers.*

*Corporate resources appear to be doing less and more administration of budget pushed on to managers, so more at lower level. Some at strategic level as in organisation being clear on the important priorities and setting resources and expectations accordingly*

Most concern with finance teams centred on turnover ...

*The finance team is perhaps young and inexperienced compared to other teams I have encountered. Until recently key finance team positions were held by contractors or staff new to management 'acting up'. A new CFO is now in place who will help establish and drive the team forward.*

*Vacancies and staff turnover have negatively impacted this function in recent years*

*Several restructures means finance in disarray. This can be answered better in 3 - 6 months once the latest change process beds in.*

*Yes, but both Finance and Procurement teams have faced challenges around recruitment and retention of staff, in part due to pay scales in these areas*

*For a number of reasons the finance team has a high number of temporary staff. Following the current organisational review, recruitment will fill this gap and ensure the right competencies are available to the organisation in the long term. Training of non-financial staff continues.*

However, this was an area where many respondents expressed a high level of uncertainty.

*I don't know if there is sufficient competency in fulfilling internal control responsibilities*

*Unsure whether it has increased.*

*I think there is sufficient financial management competency within finance but not sure of level of competence amongst our individual budget holders*

*Competency exists in Finance - I'm unable to comment on all other areas*

*As I don't have any knowledge about this I have taken a neutral position.*

*I am not clear that all staff with responsibilities have this demonstrated competency.*

*unsure of high level arrangements*

*Unsure as some staff members have good skills and others don't*

*I don't know what you mean by "financial management competency"*

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

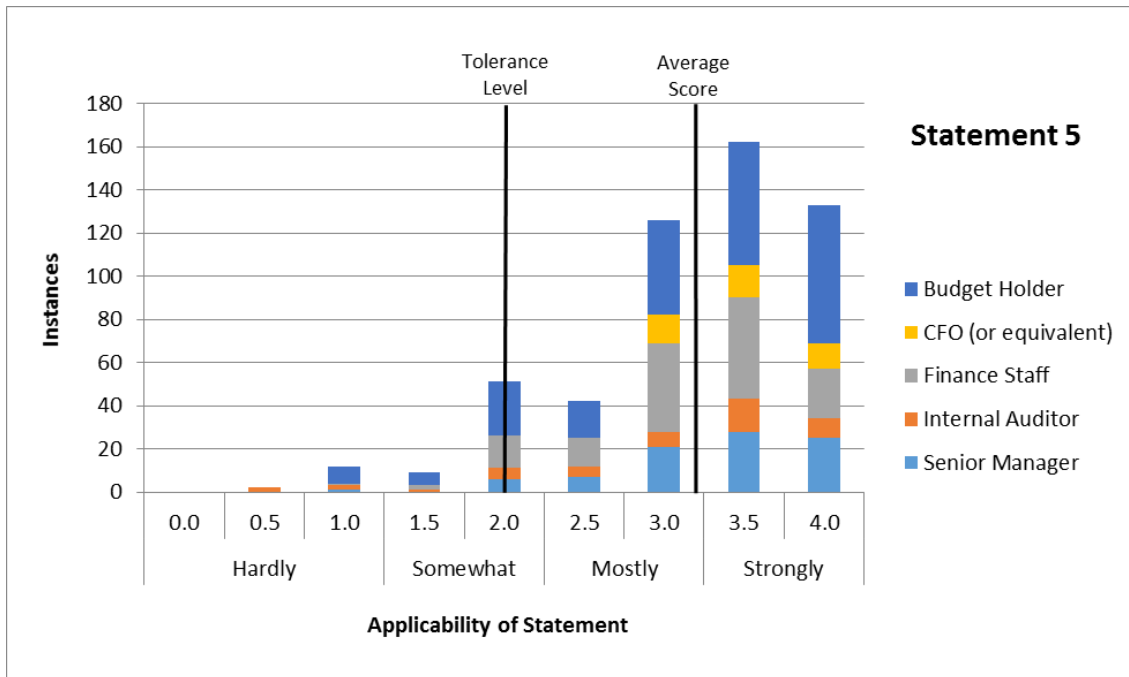
The chief executive, the senior management group and management generally should foster an organisational culture that motivates members of the department to act in line with risk management strategy and policies on internal control set to achieve the department's objectives. The tone and action at the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

*Good tone at the top. Should continue to focus on key risks.*

*From the CE down we have active, actually quite intense, engagement on these things*

*(The chief executive) and the Senior Leadership Team lead a tone of compliance and austerity*

*Leadership by example is a core expectation in this Ministry*

*For my projects senior management have invariably demonstrated the qualities.*

*Finance is on the agenda at all leadership meetings with clear interest and direction from the top around priorities and behaviours*

*Leadership and messages from above are clear*

*Over recent months, particularly, there has been a marked uplift in the reinforcement provided by the Executive Leadership Board re: the importance of internal controls, corporate health and 'hygiene', the value of integrity, etc.*

*Breaches of internal control are taken very seriously. There is a focus on the controls as part of governance meetings*

*The new CE has set clear expectations about financial management for the Executive Leadership Team and managers. This was not apparent previously. The direction of travel is positive.*

*Lead by example and leader led*

*Very important in the Ministry following the fraud.*



some however noted inconsistencies or what they felt were inappropriate priorities.

*Pretty strong messages around restraint and value for money. Less focus on actually resourcing that to improve performance.*

*Where those policies are understood, yes. Financial controls, representing numbers, confuses some people (the functionally innumerate) because there is a belief that the controls are about numbers rather than principles*

*Would be higher if it weren't for some 'disconnects' (particularly in strategic messaging, but also in behaviours).*

*The tone at the top is one of greater interest in ideas than in the nitty-gritty of process*

*Would argue though that the tone is extremely risk adverse and has gone too far*

*Yes, but with a strong emphasis on cost control rather than value for money*

*We go through seasons of spending then tightening then spending then tightening. I don't know that we have a long term strategy and some of this comes from relying on other organisations outcomes.*

*There a hell of a lot of contractors at (head office) which does create impression of a double-standard.*

*Varies across portfolios. Some very robust examples exist where financial prudence and responsibility is being demonstrably undertaken but this is not to the same standard pan-organisation.*

The importance of senior management and not just the Chief Executive was noted ...

*Our executive team have recently approved revised delegation, sensitive expenditure and travel policies that tighten up and make more explicit rules around expenditure.*

*Senior managers are quick to seek advice where they are unsure, which is equally important*

*This is clearly established through a number of fora including messaging, reporting, Leaderships Boards etc.*

*Senior staff mostly lead by example*

*Senior management demonstrate their leadership through their personal conduct.*

*Very important role models.*

*They help identify risk and are part of decisions around responses*

but in a few cases, concerns were expressed.

*the tone or message that "finance matters" does sound a bit repetitive when delivered each year, thereby losing some of its impact and credibility*

*A number of ELT members still appear to focus on means to avoid compliance with internal control policies (such as recruitment and contracting requirements)*

*Messages from CE often conflict with his personal conduct*

*it matters but sometimes senior management decisions or directives can appear limited to the current context rather than the longer term.*

*I think it wrong that certain management levels can book full flexi flights and other staff (that travel more and have less certainty at times) are told not to*

*If you are talking about work life balance - not really. There are huge pressures with workload and repeated discussions have not adequately resolved this issue. In terms of passion with the job - yes. All are very passionate about what we do. In terms of ethics - then again yes this would be high.*

*There is still more work needed here*

*Over spending is allowed. Late reporting is allowed.*

*If they are it is not filtering down to other layers.*

*Many rules and oddities await the uninitiated, can anyone be across them all?*

## 6 Internal controls respond to risks

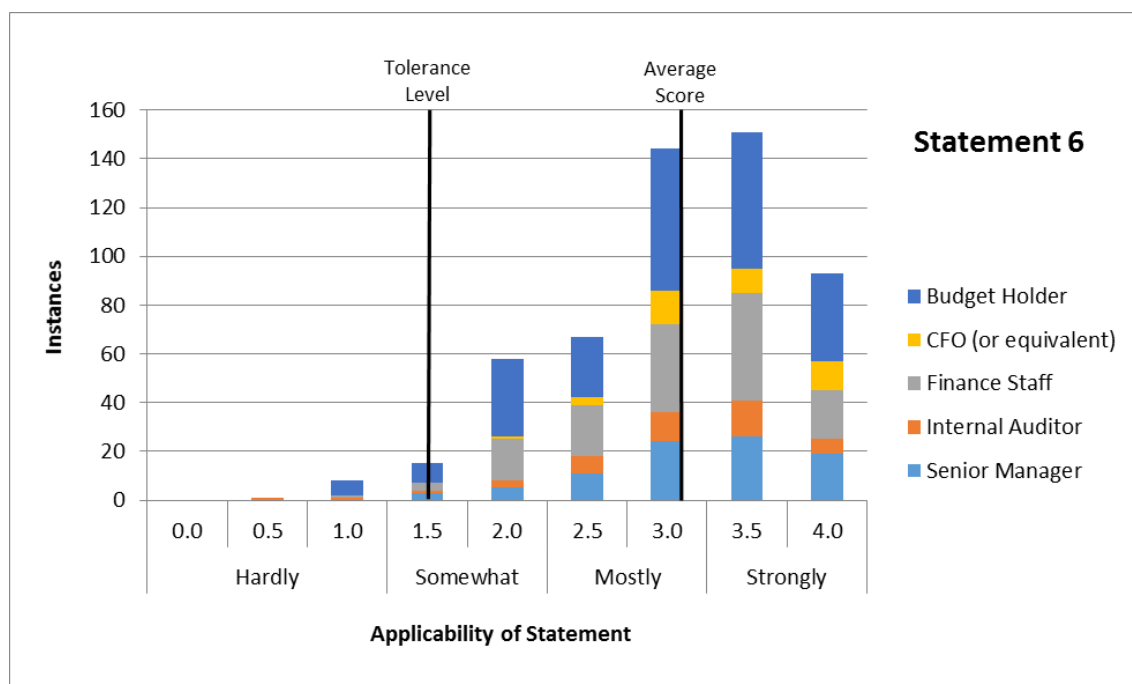
Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

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 internal controls do respond to risks ...

*The strategies to minimise the risk of fraud, wrongdoing and serious misconduct include maintaining appropriate internal controls and implementing the management plan. There is also a fraud/wrong-doing hotline*

*focused on risks and the need to mitigate*

*Assurance Group ensures that the department is owning and managing its strategic and operational risks and threats through independent reviews of service delivery, capability or practice and provide assurance reports to the CE and Executive, including recommendations for improvement.*

*We have an active risk and assurance function.*

*have noticed significant improvement here*

*Counter-fraud and related areas are recognized as needing further development and this is currently being addressed.*

and respondents could point to measures to ensure that internal control procedures are regularly reviewed and updated.

*The Internal Audit team has a yearly programme that reviews the internal control environment.*

*I have seen evidence recently of review and update to internal policies*

*Is in the process of updating its procedures to reflect the increase in size of the Ministry*

*These have been reviewed and updated in the last 12 months*

*These have mostly been reviewed this year.*

*Policy and Procedure is reviewed on a cyclical basis.*

*We are in the process of implementing a new FMIS. All internal controls will be reviewed during this project.*

*the organisation has an active and high performing internal audit team which (on a rolling basis) assesses internal controls and recommends improvements to management.*

*Most are on either annual or bi-annual review*

*done on a regular basis to ensure that we keep pace with the risks and priorities for the organisation*

*The Assurance Group plays a lead role in this area.*

*A very modern FMIS and supporting processes, plus a vigilant administration team and finance team*

Arrangements are in place to escalate significant risks, albeit in some cases informally.

*Escalation of risk is specifically covered in the Risk framework*

*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.*

*It does happen but not always through structured processes*

*There is an expectation and openness to do this if required. Nothing locked in timetable.*

*Everyone has a responsibility to advise their managers of control failures or breaches.*

*There are no formal processes but managers and staff understand their roles and escalate as required*

*Yes, there are processes to escalate risks to senior levels when these become apparent.*

*The various governance structures provide opportunities to do this*

*Escalation up is embedded within the culture*

*All breaches of financial procedures must now be reported to the senior leadership team with an explanation.*

*Any findings from Regular Internal Controls are reported to the senior management. If there is a significant risk it would be added to the Risk Register and escalated Assurance Group.*

*Easily done through the risk framework as well as the no surprises policy. Regular reporting and monitoring also provides a high level of oversight*

*High risk issues are dealt with immediately.*

Some felt that a focus on preventing rather than responding to risks would be more appropriate ...

*Ad-hoc action rather than systematic*

*Tends to be post-event rather than preventive*

*Although the test of this is not to have this happen in the first place. Those limited number of instances that have arisen has been dealt with quickly.*

and a few felt that more sophisticated approaches could be adopted ...

*It depends on the level of detection sophistication. We don't appear to have sophisticated systems to detect and prevent fraud/corruption/misconduct*

*Some controls still feel too loose*

*System based prevention and detection in some legacy systems is limited*

*Current best practice would suggest that most organisations would benefit from advanced data analytics capability to detect and investigate fraud and corruption.*

*IT sourced/based risks pose a big risk*

again however, a fair amount of uncertainty was expressed

*I am not in a position (i.e., not management) to know much about this area.*

*Don't know*

*I would imagine so, but I'm not directly involved in it myself, so not sure*

*I can't comment on how regularly the procedures are reviewed - this would be a question for the Risk Management team.*

*Procedures have review dates, not sure how well they're adhered to*

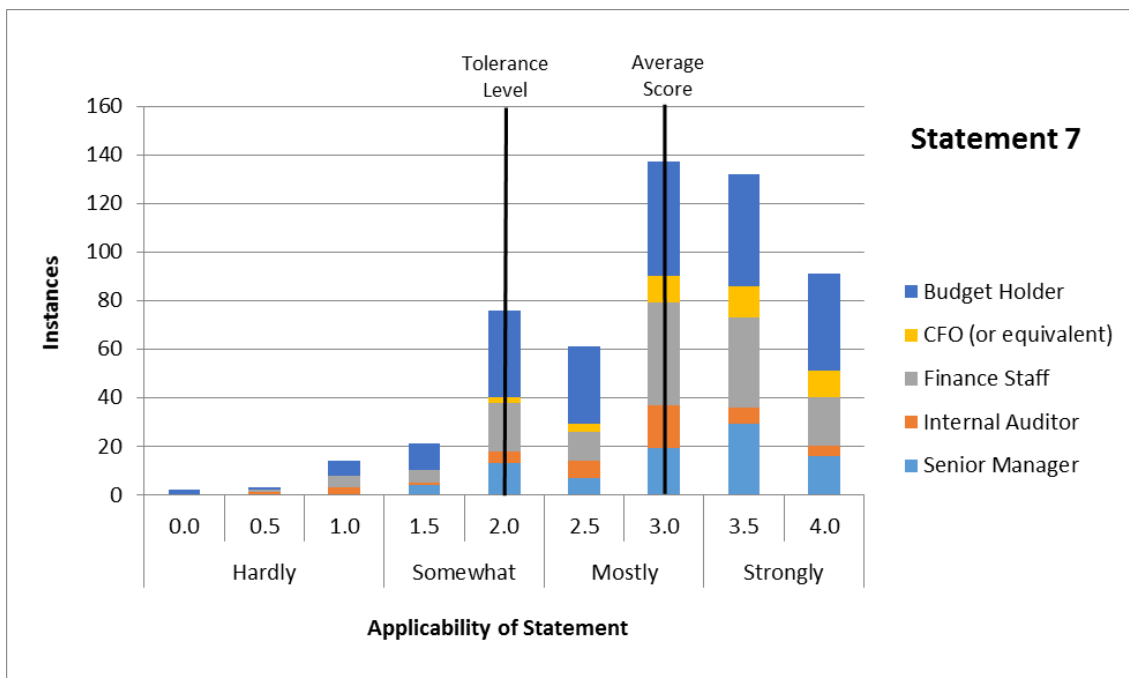
*The same broad Internal Control tools are used however I am unaware of how the updating of this these occurs.*

## 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 3,0, above the Treasury minimum tolerance level. See chart below.



A fair amount of confidence was expressed in current communication procedures.

*Every week there is some form of communication regarding internal controls*

*Communication is now occurring for the first time*

*CFO expectations letter will be sent out to all budget holders for the start of the new financial year.*

*The Audit & Assurance Team have provided lessons learned communications to all budget holders, the finance and procurement teams, ELT and other key staff regarding other Frauds and Misconduct issues in the public arena. This has been very helpful in raising awareness*

*All staff with delegated approval are required to fill out on an annual basis legal compliance survey.*

*The policies and processes are reinforced by key staff.*

*there is constant messaging around the importance of being involved and aware of their financial obligations as managers*

*Staff are now getting briefings following the development of new processes*

*Intranet information, year-end communications, budget-holder training, and purchasing training support both financial and non-financial staff with this awareness*

*through the intranet access and targeted training*

*I think we could do more at the basic staff member level on this. Having said that, we have a lot of staff who travel, and they seem to be able to deal with financial management implications without any trouble.*

*Recent lesson re travel and accommodation bookings*

*New system, new processes and improved information recently implemented*

*Good communications about expectations*

*Awareness raising and training has been provided following the fraud*

*Yes, finance staff is involved with regular monthly/quarterly checks. At the year-end budget holders would be engaged with EOY process. Senior Business Managers and Business Advisors would notify them of the YE process, timeframes, expectations and responsibilities.*

*Management Accountant ensures this awareness for non-finance team staff.*

*The Finance Team is in regular touch with Managers and this is reinforced through Business Managers*

Regular monitoring and reporting on compliance is also in evidence ...

*There is regular monitoring and reporting on compliance with some policies and procedures.*

*The Internal Audit team has their yearly IA Plan, plus the department completes a yearly In-Control survey which provides assurance that managers and their staff are aware of and follow applicable Corporate Policies in their areas of responsibility.*

*The Department monitors compliance through the design of its systems and procedures. Assurance is also provided through the Internal Audit programme of work.*

*we do an annual compliance survey, and cases of procurement non-compliance are reported to the senior leadership team*

*Quarterly returns from cost centre managers identify control failures (if any) to be addressed. Policies and procedures are available on the intranet. In addition, regular review of expenditure as a part of financial analysis.*

*There is a high level of oversight as well as the internal control check system*

*A recent example where an individual was reported 'outside the management chain' which was investigated and reported on and subsequently managed with high degree of diligence and fairness (both to individual, fiscally, and ethically).*

*Some day to day monitoring as well as formal tools (e.g. ComplyWith)*

and respondents were aware of fraud and legal compliance policies ...

*Integrity Policy is currently being reviewed by Assurance and Audit team. Regular fraud awareness and legal compliance checks are completed by Assurance and Audit Team*

*Fraud policies and integrity frameworks exist and have been reviewed or are reviewed as per internal policies cycle.*

*Next Internal Audit work programme is very likely to include updating the Fraud Risk Assessment and revising the Fraud Risk Register*

*We are also rolling out a new speaking up policy which will reiterate this.*

*All policies and procedures on the intranet as well as ILearn courses are compulsory for all staff*

*The Integrity policy outlines the specific requirements. The Fraud Awareness Survey conducted in March 2016 found that there was good awareness of the Integrity Policy and reporting requirements.*

*I have managed these situations directly, am very aware and able to follow simple processes if this occurs.*

*We have recently widely publicised the whistleblowing policy in the Ministry*

*There is a clear guidance available on the intranet (Code of Conduct).*

*In the Fraud Management and Whistleblowing policies and procedures.*

although some suggested more communication would be appropriate ...

*Could be more regular communication*

*I don't feel this is regular. But it is mentioned after our two internal audits each year and external audit.*

*more work needed here*

*It is primarily an annual exercise.*

*Seems like an area that we could have greater awareness / training about. Should also be tailored to all staff as there's a risk that as managers are frequently required to be 'out of the detail' and to delegate as much as possible, our junior staff may not have the awareness or training to detect and report suspicious behaviour / potential fraud.*

*We are around the anniversary of the roll-out of the new invoice processing system. A refresher course/seminar would be a good idea, along with leavening for new staff*

*This volume and regularity of communications could be lifted, probably, and there are plans in place to tailor some communications to particular audiences, as well as do more of the 'all staff' messaging and awareness raising (e.g. connected to Fraud Awareness Week).*

*Lack of induction for new managers*

*We could do this better - to involve the project leads in financial processes, not just managers*

*Training has been provided, although it was a while ago now (a year?)*

*Little or no training provided to newly promoted senior staff*

*Monitoring and compliance in some areas is inadequate*

*Although better use of data analytics could make this more efficient.*

*There are seeming gaps in the compliance area, although the assumption is that the monitoring is done fairly consistently. It's just not always obvious that action is taken when things fall below the standards expected.*

and there was one proposal that less rather than more would be appropriate.

*Yes the organisation does monitor and act. The policies and procedures themselves, while sound, are long, dense and wordy. We require a new staff members to read and remember 20 policy documents (some 30-40 pages) in their first weeks. It is time-consuming, expensive from a resource perspective and I have no confidence this is the best way for people to learn and understand the internal control environment. There has to be a better way.*

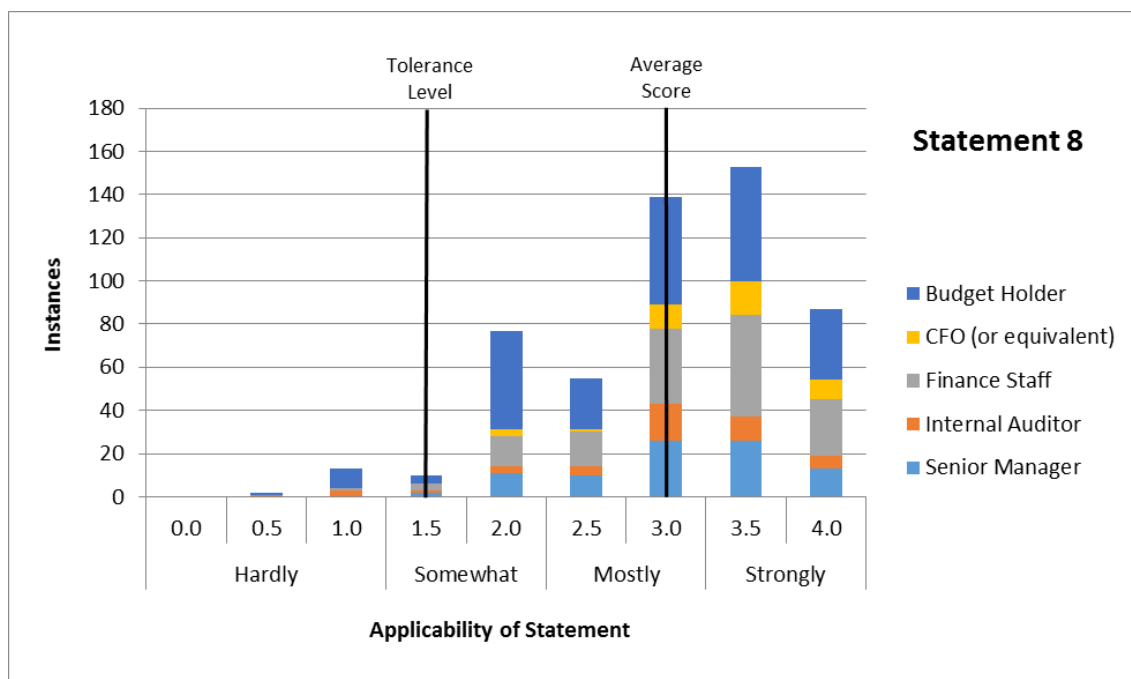
## 8 The department regularly monitors and evaluates controls

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 pointed to the department's assurance function as the mechanism to monitor and evaluate controls ...

*We do have an active risk and assurance function that conducts internal audits and reviews according to the schedule agreed for the year and as required).*

*Assurance Group ensures that the department is owning and managing this portfolio. This group provides regular reports to the CE and Executives including recommendations for improvement.*

*Internal Audit reviews.*



*Robust audit process in place to support the Risk Assurance Group who also carry out deep dives to validate the process*

*Our Risk and Assurance has these controls as a key focus for the Annual Risk-based assurance plan*

*This is evolving. Internal audit is the main tool at present to ensure compliance.*

*The Office relies on completion of internal control surveys.*

*Yes, including through a regular audit programme.*

*Risk and Assurance has a role in this. Managers also complete internal control check lists each month*

*Internal Audit Function Leads*

*Risk and Assurance has a role in this. Managers also complete internal control check lists each month*

*The Risk-based assurance plan does this*

While other, typically smaller, departments reported strong managerial oversight ...

*Overall we are a small organisation with a central look at all expenditure, programme of I/C checks in the region and reporting monthly to ELT. The CE has instituted a report of larger expenditure and all approvals for expenditure are signed at the right level - I believe the programme overall is appropriate to the size and risks.*

*This year, in particular, has seen a substantial improvement in executive level financial reporting. Otherwise, there is comprehensive and regular cost centre reporting followed up with review, cost centre by cost centre and on a monthly basis.*

*Yes. ELT is meeting to review its risks each trimester and there are monthly risks and bi-monthly assurance reports*

*Recently conducted (within the last 6 months) a significant review of risk management arrangements.*

and some recognised actions arising from the control and evaluation activity ...

*This happens regularly at Executive Leadership Board and Senior Leadership Team meetings, as well as through the independent Assurance and Risk Committee.*

*Any instances of internal control breach identified or raised are investigated with appropriate corrective action taken.*

*Internal Control breaches are recorded in Internal Control return with a recommendation of "action to be taken". This would be followed up during the next internal control. If the breach is significant it would be elevated high up and an appropriate action taken.*

*Unclear if recent reviews etc. are a sign of the new normal or a passing reaction to recent events*

... other respondents did not see evidence of this, or doubted appropriate follow-up action occurred.

*There is an independent risk and audit committee which reports to the CEO. WE don't see the outputs of this Committee*

*The only action I have seen is reporting.*

*Very weakly. The Self-Control Assessment, required of divisional managers, appears to be a tick box exercise with little follow up action or checking of compliance.*

*Acting on ELT at present and very surprised to see minimal "all-of-agency" financial and risk information distributed or discussed*

*The number of sub-systems that create financial information mean that the interface with the official system may not be up to date with accounting standards. Failure to be up to date may not be identified for some time.*

*Breaches are reported. I don't know what happens after that.*

*Some breaches are put in the too hard basket*

*I believe the above happens, but have no direct experience of it*

*I suspect that finance division does this but I am not sure.*

*I think so but you don't know what you don't know :)*

A common practice cited to ensure compliance with relevant laws (e.g. Public Finance Act) and regulations (e.g. Treasury Instructions), was the use of compliance surveys...

*As well as internal controls the Ministry completes the annual ComplyWith survey.*

*The Department undertakes a Legislative Compliance Survey each year. This includes confirmation of compliance with the Public Finance Act.*

*Comply With has been recently implemented*

*Via Complywith surveys*

*Survey process*

*The organisation has a compliance framework and this is supported by a ComplyWith self-assessment tool.*

*Annual Comply with survey amongst other controls*

*Yearly survey*

*Use of Quantate*

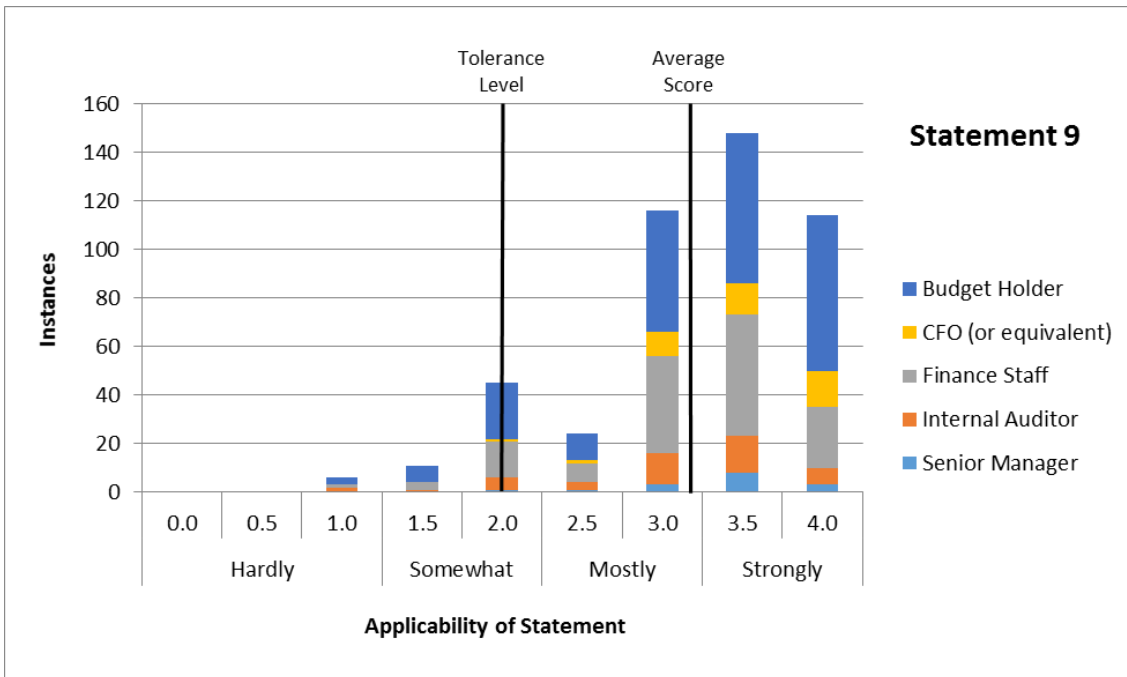
with one respondent complaining of overload.

*We seem to believe a never ending treadmill of assurance checks, audits by OAG, Audit NZ, any an Dall of the big four at any one time and now this survey, So yes*

## **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 3.2, 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.

Smaller departments uniformly reported that they do not have an audit committee, while larger departments uniformly reported that they did.

A number of respondents noted their organisations transparency and accountability with some pride ...

*I operate in a totally transparent manner and I expect that of my management team. Staff of the organisation are clear about their accountabilities*

*The organisation goes to great efforts to ensure its transparency and accountability*

*The Ministry tries to model and adhere to this standard*

*I really enjoy working for the department and feel that the organisation acts with integrity and determination - that means a lot to me.*

*The Ministry strives to be accountable and transparent; however, it is less conscious in some areas than others, so less able to demonstrate the basis for some decisions/choices*

*Yes, based on the results achieved, policies, procedures and controls in place, I can say that in my view, the department is accountable and transparent organisation.*

*I have complete confidence)*

And a number reported positively on Audit Committees ...

*The Ministry's Audit Committee was re-established in August 2016 focused on risk and assurance activity*

*Significant improvement since the Joanne Harrison fraud case*

*All members of the Audit Committee are independent- it meets six times a year*

*The Audit and Risk Management Committee is very active including participation of the Chair in ET meetings on Risk*

*External Advisory Committee is a well-established committee*

*The Department has a Risk and Assurance Committee which monitors audit actions*

although there were concerns about the visibility of these bodies.

*I know it has an Audit committee, but I don't know about its effectiveness*

*Insufficient visibility to staff and managers of the Audit and Risk Committee's work (and its impact)*

*We have an audit committee but can't comment on effectiveness.*

Respondents also reflected some assurance from Audit Office reports.

*Audit NZ assessed the internal control environment as "good" in 2014/15 and 2015/16. Audit NZ have also indicated they consider the Department to be close to achieving very good*

*it is the job of the auditors to identify controls which can be strengthened. No major control failures were observed.*

*The organisations internal controls were assessed as good, but the audit management letter did have areas to improve that are typical of small organisations, some of which are difficult for small organisations to address cost effectively.*

*There were small weaknesses that small organisations cannot address cost-effectively*

*No material weaknesses*

*Some things continue to hound the organisation such as documenting procurement management etc*

Respondents felt that their organisations were open to the public ...

*Complaint line, fraud line, crime stoppers*

*Specific email address for fraud, also general Enquiries email address*

*The Ministry website invites contact from those who suspect loss or misuse of funds managed by the Ministry.*

*This is made pretty clear on our public-facing website, and we certainly get lots of 'praise and complain' feedback coming in. )*

*It does. A number of different lines of communication with the public make this clear.*

*Complaints process is on the website. We also have a Respondent Advocate who addresses concerns raised by people and organisations who participate in our surveys.*

*0800 number and email (*

*I think it is widely understood by the public that they can contact the Minister or request info through OIA*

*Through the website.*

*I'm not sure about complaints specifically (we're mainly a policy agency) but otherwise the Ministry is pretty open to communication from the public*

and reported that while significant efforts are made to meet OIA requests, acknowledged that deadlines were not met.

*I believe our strengthened Ministerial Support and Official Correspondence team has improved processes, and timeliness of responding to OIAs. We have very few complaints to the Ombudsman about our OIA responses (although I am not aware of the outcomes of any Ombudsman investigations).*

*In my unit we strive to this. I have heard that within our organisation we often fail to meet appropriate timeframes*

*In addition to OIAs, and having clear mechanisms for complaints, the department pro-actively releases its data and information.*

*Occasionally a bit late*

*Some minor delays*

*Some OIA responses are outside time limits*

*Timeliness can be an issue*

*My impression is that the department takes seriously the obligations of the OIA 1982, and the policies and procedures are well advertised to staff.*

*OIAs are taken very seriously but there can be time delays.*

*We occasionally miss statutory deadlines.*

*Honestly, the answer has to be 'no' here - as seen in the Ombudsman's Office stats around all our 'delay deemed refusals' etc.*

*There is considerable effort that goes in to meeting these requests. On the whole I believe we do very well.*

*Some really hard work goes on in this area.*

*There have been reported instances of failure to meet timelines required by the OIA.*

*Timeliness has been an issue.*