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Unrestricted Distribution

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Chief Executives

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2021 INTERNAL CONTROL ASSESSMENT TOOL – EVALUATING THE INTERNAL CONTROL ENVIRONMENT

1. This circular provides details about the Internal Control Assessment Tool (ICAT) survey and outlines your part in the process.
2. The ICAT survey is a critical part of our process for the preparation of the annual Financial Statements of the Government (FSG). In accordance with section 29 of the Public Finance Act 1989 (PFA), the Secretary to the Treasury is required to prepare the annual FSG and to attest that they are based on an adequate across-government internal controls system. The survey outlined in this circular provides additional assurance that, combined with the Chief Executive and Chief Financial Officer assurances, enables the Secretary to the Treasury to fulfil this obligation.
3. The information collected through the ICAT survey will be used by the Treasury as part of the evaluation of the adequacy of internal controls for the Government. In addition, it should also offer the management teams of participating Departments a wider perspective on the strength of their internal controls environment, and opportunities to identify and rectify potential weaknesses.
4. To assist the Treasury in this process, we require you to identify suitable survey contributors in your organisation and supply their contact details to the Treasury. The deadline for providing contributor details is set out in paragraph 5. For further details on identifying suitable contributors please see paragraphs 11 to 14.

5. The process for the 2021 survey has similar requirements to last year's ICAT survey. The timeframe for this year's survey is set out below. The deadline for completion of the ICAT process will have some flexibility to assist with management follow ups.

Date	Deliverable
Prior to 26 May 2021	Departments send a heads-up email to those staff members identified as potential contributors to check their availability and any concerns they might have.
27 May 2021	Departments submit survey contributor details via email to the Treasury using the spreadsheet as referenced in Annex One.
10 June 2021	The Treasury issues the ICAT survey to a sample of contributors.
1 July 2021	Survey responses are completed by contributors.
19 August 2021	Survey results are reported back to Departments.

6. The survey is web-based and relatively intuitive. A link to an electronic survey will be emailed to a sample of staff ("contributors") with logon details and instructions for completing the survey. Paragraphs 15-18 provide further details of the survey process.
7. Our experience from previous years suggests the survey process will continue to have minimal impact on participating staff members' time (the average time taken to complete the survey in 2020 being 10-15 minutes). However, it may take longer if contributors choose to provide explanatory comments for their ratings, which is encouraged.
8. This year we have modified one question (6.5) relating to internal controls that have been implemented relating to COVID-19 initiatives. Refer to Appendix Three for a list of all survey questions.
9. The Treasury [website](#) contains information and guidance on the principles of internal control that will be assessed by the ICAT process. Further background information on ICAT and some frequently asked questions can be found in paragraphs 19 to 28.
10. If you have any questions on this circular, please refer the contact details provided above.

Jayne Winfield
 Manager, Fiscal Reporting
 For the Secretary to the Treasury

Identifying Survey Contributors

11. To ensure contributors are chosen at random the Treasury requests that Departments identify and supply the details of as many suitable survey contributors as practicable for your organisation. If the pool size is sufficient, only a sample (a subset) of those will be randomly selected by the Treasury to participate in the survey. More information on how to identify suitable survey contributors, and details the Treasury needs, are provided in Annex One.
12. It is important that the contributor details are submitted in the exact format prescribed in Annex One (so they can be automatically uploaded to the survey platform), and that the email addresses provided are accurate.
13. As logon details will be sent directly to contributors' email addresses at the launch of the survey, it is important that they are advised beforehand that they have been enlisted to complete the survey and that they will be receiving that email. A pro forma email has been provided (Annex Two) to help Departments enlist contributors for the survey. You will need to identify someone within your department to email all selected staff to ensure availability and identify any concerns they might have before contributor lists are submitted to the Treasury by the required date.
14. Prior to providing the Treasury with your contributor details please ensure that any staff that will be on leave or secondment or have left since last year are not included on the list. The inclusion of unavailable contributors increases time spent following up and may result in delays in being able to send out the survey.

The ICAT Survey

15. The survey asks contributors to rate the applicability of nine statements made about the internal controls environment in their organisation. A number of supporting questions accompany the survey to help contributors make a judgement for each statement. The statements and the supporting questions are provided in Annex Three.
16. Reminders will be sent throughout the survey period to those contributors who have not completed the survey, encouraging them to complete the survey by the due date.
17. Once the deadline for the survey has passed, the Treasury will ask Department CFOs or the nominated contact person to assist in following up any late contributors. We will send separate communications on this matter closer to the deadline.
18. Once all contributions are received the Treasury will collate the responses and share the survey results with the Departments concerned. If the survey results indicate that a particular Department's system of internal controls might require attention, the Treasury will be in contact to discuss any follow-up action required

ICAT Background Information

19. In accordance with section 29 of the Public Finance Act 1989 (PFA), the Secretary to the Treasury is required to prepare the annual Financial Statements of the Government (FSG) and to attest that they are based on an adequate across-government internal controls system.
20. In making this attestation, reliance is primarily placed on the individual statements of responsibility prepared by Departments in relation to their financial statements, and on the sign-off process of independent auditors on those financial statements. However, a greater level of assurance about the adequacy of Departments' internal controls is required.
21. Consequently, the Treasury conducts an annual process to evaluate Departments' internal controls and to obtain the level of assurance it requires.
22. The ICAT focuses on principles of good practice for evaluating and improving internal control systems. It does this by highlighting a number of areas where the practical application of such principles often fails.
23. The ICAT survey integrates internal controls as an element of wider financial management expectations. This broader view encompasses not just stewardship responsibilities, to which the ICAT is directed, but also financial management's role in ensuring decisions maximise value for money while also considering all other impacts of these decisions.
24. While the survey relies on the self-assessment of contributors, a level of objectivity in the results is achieved by:
 - surveying a range of staff with different financial management responsibilities in each Department (i.e. not just finance staff)
 - the selection of reasonably large samples wherever possible; and
 - where the lists of potential survey candidates are sufficiently large the random selection by the Treasury of a subset of contributors to take part in the survey.

FAQs

25. Is the survey confidential?

It is not possible to guarantee complete confidentiality however we do take steps to maintain privacy where possible. Individuals will not be named in any reporting from the survey. The survey ratings for each statement will be reported on a by-category basis, affording individuals a level of confidentiality where there is more than one contributor in a particular category, but not otherwise. Experience has shown that reporting the ratings on a disaggregated basis has enabled Departments to better interpret them. Note that any additional comments volunteered by contributors will be reported in such a manner that they cannot be attributed to the contributor concerned.

26. Will results be reported in a league table?

No. We expect to see some volatility in the results over time, and this may well be attributable to changes in contributors' views rather than actual changes in the strength of the controls environment. Therefore, the Treasury will not be sharing individual Department's results beyond the corporate centre, and external auditors.

27. Will benchmarking data be available?

The ICAT reports will show each Department's ratings alongside the average ratings provided by all the Departments taking part in the survey. As this year's ICAT survey uses predominately the same questions, a high-level comparison of results to the prior year will also be provided.

28. How do I use the department reports?

The reports provide assessment against nine principles of good practice for evaluating and improving internal control systems, focusing on areas where the practical application of internal control often falls short. The Treasury has prepared "[Making Use of the ICAT Scores: Guidance for Departments](#)" suggesting actions to take if the results of the ICAT scores are not aligned with the department's risk appetite.

ANNEX ONE: IDENTIFYING SURVEY CONTRIBUTORS

To achieve a level of confidentiality in the survey ratings, the Treasury prefers to randomly select a sample of survey contributors from each Department. To achieve this, we are asking Departments to supply a large pool of potential candidates for each of the five contributor categories listed in the table below. The Treasury will then randomly select a sample of contributors from each pool.

The Treasury recommends Departments provide a pool size as large as possible. Indicative pool sizes for each category based on department size are given in the table below.

All Departments should try to identify at least one contributor in each category. However, this may not be possible for some Departments, for example those that do not have an internal audit function.

Providing a pool larger than suggested increases the level of confidentiality for contributors. In previous years departments who have only provided small sample sizes have not had additional contributors available for substitution where staff have been unavailable, thus reducing the contributor completion percentage of the department. Please ensure you keep this in mind when compiling your contributor list.

Category Number	Contributor Category	Minimum Pool size (number of contributors)		
		Small Agency (<50 staff)	Medium Agency (50 to 500 staff)	Large Agency (500+ staff)
1	Budget holder	2-4	3-10	8-15
2	CFO (or equivalent)	1-2	1-2	1-2
3	Finance staff	1-2	2-5	4-10
4	Internal auditor	0-1	1-2	2-5
5	Senior manager	1-2	1-3	2-5

Further instructions for identifying contributors and supplying the necessary details to the Treasury are included in the “ICAT Contributor Details Return” spreadsheet attached to the email from our CFISnet Helpdesk advising the release of this circular. The spreadsheet is also attached to the circular on CFISnet.

Please provide the information as set out in the below example on the attached spreadsheet.

Email Address	First Name	Last Name	Department	Category Name
<i>john.smith@treasury.govt.nz</i>	<i>John</i>	<i>Smith</i>	<i>Treasury</i>	<i>Finance Staff</i>

ANNEX TWO: PRO FORMA EMAIL FOR ENLISTING CONTRIBUTORS

The following text has been provided to help Departments enlist contributors for the survey. If you choose to use it, please tailor it to your specific requirements.

Dear {Insert Name},

The Treasury is running its annual web-based Internal Control Assessment Tool (ICAT) survey to evaluate the strength of our internal controls environment. This is a necessary and critical part of the assurance process for the Government's year-end financial statements.

The ICAT survey will ask a cross-section of staff to rate the applicability of nine statements made about our internal controls environment. No pre-work will be required to complete the survey and it is expected that this survey should only take 10 to 15 minutes to complete.

I propose to provide your name and email address to the Treasury as a potential candidate to take part in the survey. If selected by the Treasury you will be emailed logon information to access the survey, which can be completed any time between 10 June and 1 July 2021.

Please let me know by {insert day, date} if you have any concerns about being involved in this process. Otherwise, I will put your details forward.

Kind regards

{Insert Name}

ANNEX THREE: SURVEY STATEMENTS AND SUPPORTING QUESTIONS

The following table shows the statements and supporting questions for the 2021 ICAT survey. New and updated questions for this year have been highlighted blue.

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

	Statements and Supporting Questions	Contributor Category				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
1	Internal controls support the Ministry’s/Department’s objectives.	X	X	X	X	X
1.1	Does the organisation’s planning allocate resources strategically to deliver the organisation’s aims, objectives and priorities?	X	X	X		X
1.2	Is there an up-to-date risk management strategy and policy, including risk appetites and methodologies for assessing risk?	X	X		X	X
1.3	Do risk management arrangements include formal identification, recording, and assessment of risks?	X	X		X	X
1.4	Do the risk registers link risks to organisation objectives?	X	X		X	X
1.5	Do risk management arrangements include monitoring the development of risks and the effectiveness of management actions through indicators and early warning signs?	X			X	X
1.6	Are internal controls targeted to eliminate preventable risks cost-effectively?	X	X	X	X	
1.7	Do business continuity plans provide assurance there is resilience in achieving objectives?	X	X			X
2	The Ministry/Department determines roles and responsibilities.	X	X	X	X	X
2.1	Does the organisation have structured arrangements in place to obtain the assurance needed to enable the Chief Executive to assert confidence in the Financial Statements in relation to the internal controls of the organisation?		X	X	X	
2.2	Do management arrangements include properly resourced action plans with named, responsible individuals to mitigate and manage risks?	X	X		X	X

	Statements and Supporting Questions	Contributor Category				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
2.3	Are the roles and responsibilities of finance staff clearly defined and is this evidenced by a high level of awareness among managers about who to contact and when?	X	X	X	X	X
2.4	Are delegated authorities and responsibilities clear?	X	X	X	X	X
3	The achievement of internal control objectives is linked to performance management.	X	X	X	X	X
3.1	Does your performance feedback system appropriately cover financial management competencies?	X	X	X	X	X
3.2	Are managers at all levels appropriately held accountable for performance and financial outcomes for activities under their control, with meaningful and timely feedback?	X	X		X	X
3.3	Are managers at all levels held accountable for the value-for-money implications of their decisions, with meaningful and timely feedback?	X	X		X	X
4	There is sufficient competency in fulfilling internal control responsibilities.	X	X	X	X	X
4.1	Is there a financial management competency framework that identifies competencies needed at different levels of responsibility throughout the organisation?		X	X		X
4.2	Are positions that include responsibility for budgets and spending required to have specified financial management competencies?	X	X	X	X	X
4.3	Has the demand for financial management competency from within the organisation increased in recent years (e.g. in matching organisational objectives with resources, setting and monitoring desired resilience and performance, providing feedback)?	X	X			X
4.4	Is there sufficient financial management competency in both finance and other areas?	X	X	X	X	X
4.5	Is the finance function performance managed through defined standards that are regularly reported and monitored?		X	X	X	
4.6	Are senior management members and staff aware of relevant codes of conduct and is compliance high? E.g. Code of conduct for the State Services, professional body's codes of conduct.	X	X		X	X
4.7	Do external auditors and inspectors comment favourably on the capacity of the finance function?		X	X	X	

Statements and Supporting Questions		Contributor Category				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
5	The "tone at the top" motivates staff to adhere to internal control policies	X	X	X	X	X
5.1	Do senior management team members as individuals show leadership by example in their own personal conduct?	X	X	X	X	X
5.2	Does senior management set the tone that finance matters?	X	X	X	X	X
5.3	Do senior managers demonstrate an understanding of the financial management rules by actually applying them?	X	X	X	X	X
5.4	Is the senior management team involved in determining key risks and responses?	X	X	X	X	X
6	Internal controls respond to risks.	X	X	X	X	X
6.1	Does the organisation regularly review its internal control procedures and update them where necessary?	X	X	X	X	
6.2	Are there arrangements to escalate risks to the senior management team if the scale would have a significant impact?	X	X	X	X	X
6.3	Does the leadership team take prompt action in a transparent manner to remedy any breakdowns in internal control procedures?		X		X	X
6.4	Do you have access to up-to-date procedures to prevent, detect, and investigate misconduct, fraud and corruption?	X	X	X	X	X
6.5	Has the organisation implemented internal controls over COVID-19 initiatives?	X	X		X	X
7	Regular communication regarding the internal control system takes place.	X	X	X	X	X
7.1	Are all staff involved in financial processes (e.g. invoice processing or year-end accounts) aware of their role and impact, whether finance staff or not?	X	X	X	X	X
7.2	Does the organisation monitor and act to ensure staff comply with its policies and procedures?	X	X	X	X	X
7.3	Does the organisation regularly review the effectiveness of anti-fraud and anti-corruption arrangements?		X		X	
7.4	Do you know what to do if you suspect misconduct, fraud or corruption?	X	X	X	X	X
8	The Ministry/Department regularly monitors and evaluates controls.	X	X	X	X	X
8.1	Does the organisation regularly monitor and act to ensure compliance with relevant laws (e.g. Public Finance Act) and regulations (e.g. Treasury Instructions), and that expenditure is lawful?	X	X	X	X	X
8.2	Does the organisation monitor and act to ensure compliance with its documented internal control procedures?	X	X	X	X	X

	Statements and Supporting Questions	Contributor Category				
		Budget Holders	CFO	Finance Staff	Internal Auditor	Senior Manager
8.3	Is the senior management team given a consolidated view of the organisation's finances and risks, including from Crown entities monitored and important delivery partners?		X		X	X
8.4	Does the senior management team regularly review the effectiveness of the organisation's risk management arrangements, including assurance from internal audit?		X		X	X
8.5	Does the organisation monitor and act to ensure that its financial policies or standing financial instructions (including procurement) are applied appropriately?	X	X	X	X	X
8.6	Are internal control breaches reported to the appropriate management personnel, investigated and appropriate corrective action taken where necessary?	X	X	X	X	X
9	The Ministry/Department is accountable and transparent.	X	X	X	X	X
9.1	Does the organisation have an effective Audit Committee?		X	X	X	
9.2	Was the annual audit letter free of weaknesses identified in the operation of internal controls?		X	X	X	
9.3	Does the organisation publish a Statement of Responsibility covering Internal Controls, including internal financial control and risk management, signed by the Chief Executive?		X		X	X
9.4	Does the organisation publicise how the public can register concerns or complaints?	X	X		X	X
9.5	Does the organisation consistently meet its obligations under the Official Information Act 1982?	X	X	X	X	X