Analysis of Responses: ICAT[1] 2019

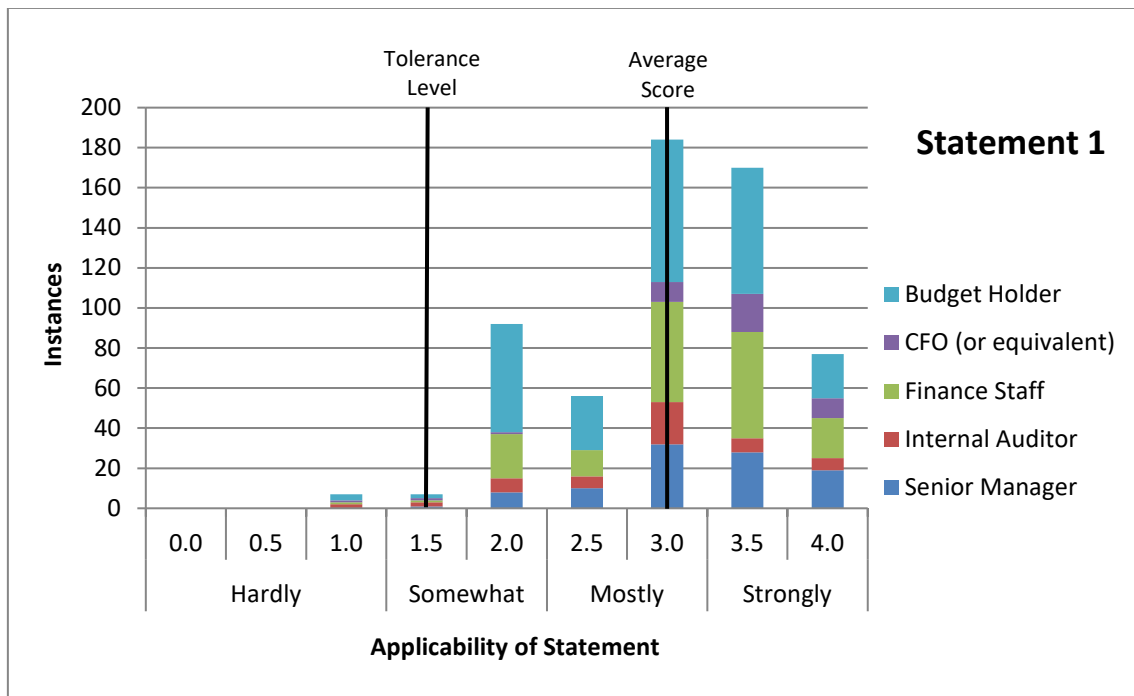## 1 Do internal controls support the department's objectives?

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.

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[1] Internal Control Assessment Tool

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

– *I believe the internal controls are not visible at an operational level.*

– *The Department's policies and procedures have been established to support its objectives. Finance reviews the internal control environment and establishes where improvements are required. Finance also reviews key internal controls on a monthly basis.*

– *Clear guidance provided on balancing current output delivery with compliance and investing in future success.*

– *We have spent a lot of time in the past two years refreshing our organisational policies around the Ministry's objectives and values. We have recently agreed a new Staff code of conduct which clearly establishes expectations around compliance with policy. Our controls seek to ensure consistency between our policies and actions.*

– *While various levels of controls and assurance activities are employed, there is still educating to be done to ensure that people have a good understanding of their roles in making sure controls are operating.*

– *The internal controls are targeted at risk well but not as cost-effective as they could be*

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

– *The Department's policies and procedures have been established to support its objectives. Finance reviews the internal control environment and establishes where improvements are required. Finance also reviews key internal controls on a monthly basis to ensure that there is not a breach of these controls supporting the Department's objectives.*

– *Controls focus on the highest risks to our deliverables against our objectives*

– *Improved risk assessment and management of procurement and Commercial risks will enhance the meeting of the objectives.*

– *Business planning is clearly aligned to organisational objectives.*

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

– *Very strong position, reflecting significant positive change in recent years.*

– *Strong control environment within financial management areas including budgeting. business planning and risk management is still maturing.*

– *This may be a timing issue - new Chief Executive, restructure, development of a new strategy.*

– *Work is underway to refresh and refine the Ministry's strategic framework and risk management framework, which will support decision making and delivery.*

– *On-going focus of improvement across corporate groups to improve understanding and target areas that have been identified as needing improvement.*

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

– *A review of processes, controls and delegations is due to be completed by July 2019 as some of the processes adopted are not fit for purpose for an agency of our size.*

– *Controls support objectives but not effectively. key controls are not resourced appropriately which reduces their effectiveness.*

– *Further work required to ensure internal controls are effective while also being as efficient as possible.*

– *Most internal controls see only one side of the risk equation (eg, financial controls are aimed at reducing risk of fraud) and haven't been justified through a cost-benefit analysis or something like a regulatory impact assessment. As a result, they often don't take account of the full set of risks that a manager has to manage (eg, the risk of not purchasing or delivering a service because of the transaction costs created by financial controls).*

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

- *Maturity of our investment management framework is developing but the processes are working and understood.*

- *We are in the process of reviewing and revising our enterprise risks and on the back of that our risk appetites, however the broad strategy, policy and methodology remains the same.*

- *Our Risk Management Policy and Framework was refreshed in 2018. The Executive Leadership Team have recently refreshed their risk appetite.*

- *The enterprise risk framework is being refreshed at the moment.*

- *Improving the risk management strategy and policy been a recent focus and is progressing.*

- *The risk management approach has just been refreshed.*

- *Generally, risk and assurance are well managed and are regularly reviewed. Our Fraud Risk Management Policy is about 6 months overdue for review.*

- *The risk policy is very high level so is fit for purpose. It is due to be looked at though.*

- *The Department has engaged a consultant for this specific piece of work, and this is actively being developed now.*

- *Improving the risk management strategy and policy been a recent focus and is progressing*

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

- *All in place except for risk appetite.*

- *I don't know what 'risk appetites' means here*

- *We are still developing our risk appetites; all other areas have been done*

- *Risk appetite is not addressed - it would be good to acknowledge in risk assessments what level of risk we are keen to take.*

- *Discussions have been had about risk appetites, but it is not settled across all domains. we are good managers of daily operational risks but are not so good at strategic risk management.*

- *However, I don't know how well-defined risk appetite is across different dimensions of risk.*

- *I am not sure that risk appetite is explicitly covered in the risk management framework policy documentation.*

- *It took quite a bit of digging to find the risk appetite section, which hasn't been updated since Jan 2017 I don't know if / when the management of risk transitions occurred.*

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

- *However, I don't know how well-defined risk appetite is across different dimensions of risk.*

- *I am not clear about the "risk appetites" aspect of this question.*

- *Risks are not given equal weighting as opportunities. There is a culture where risks need to be couched as opportunities to get buy-in.*

- *Risk appetite is not addressed - it would be good to acknowledge in risk assessments what level of risk we are keen to take.*

- *Discussions have been had about risk appetites, but it is not settled across all domains. We are good managers of daily operational risks but are not so good at strategic risk management.*

- *I have seen various risk matrices, but these seem very basic.*

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

- *I have seen various risk matrices, but these seem very basic*

- *The Risk Management Policy available on the Intranet is dated June 2016 and was due for review in June 2018. It doesn't appear to have been updated recently.*

- *There is no risk strategy or methodology documents on the intranet or in the Risk document folders. There is a risk policy and risk appetites.*

- *Not sure. In recent months, third tier awareness of risks and their management has significantly diminished.*

- *I am not aware of my risks being monitored by anyone other than me.*

- *Not in all instances. Procurement and commercial risks are not adequately identified in advance*

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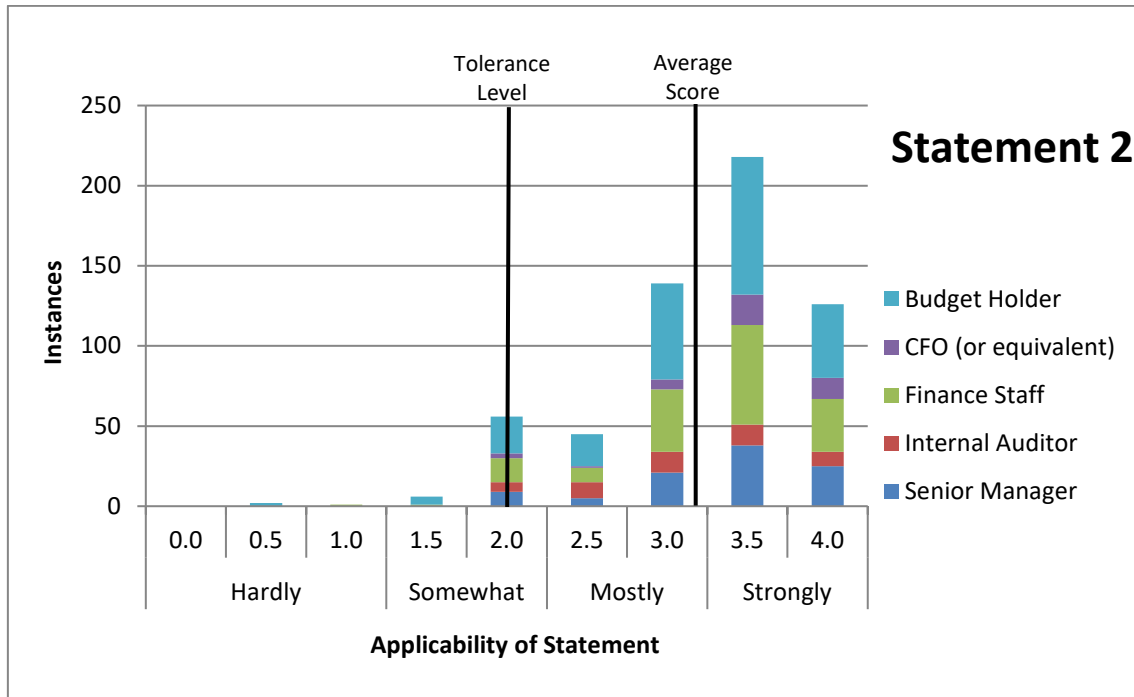
Government departments were able to provide strong assertions over clarity of roles and responsibilities…

- *Clear allocation of financial tasks focusing on appropriate segregation of duties given small team. Given the small nature of the organisation, key contacts are clear but everyone in finance can help give financial support as required.*

- *Financial roles and responsibilities are reviewed on a regular basis.*

- *Speaking for finance matters relating to my branch, I know who to contact for what.*

- *We have clear delegations (recently refreshed), new procurement and financial management policies, and increasing awareness amongst staff about these.*

- *The roles and responsibilities are comprehensively determined and documented in the Ministry's policies, delegations, and role descriptions.*

- *High level of clarity.*

- *Expectations on roles and responsibilities are made very clear for new starters and staff moving into new roles.*

- *Roles and responsibilities are clearly articulated within the Department's delegated powers (ie, Treasury statements and circulars, legislation, Ministerial requirements etc)*

While some noted that there was room for improvement.

- *Delegated authorities do exist; however, some elements are not completely clear, and are likely to need to be reviewed.*

- *Generally, there is delegations in broader finance sense eg, procurement, but uncertain around contractors, sub-contractors and managing of property and leases expenditure.*

- *Delegations levels don't seem to align with delegations in the FMIS.*

- *Yes, but they are subject to frequent change due to staff churn. The organisation is working on ways to mitigate this.*

- *Yes, the Ministry spends a lot of effort clarifying roles and responsibilities. Doesn't always result in effectiveness, but that's a different conversation.*

- *Yes, the branch business decides and delegates appropriately for my cost centre, which bounces up a level for anything over my level into my managers cost centre and up etc as the risk escalates. I think in some situations there are staff who manage some finance situations who haven't had a lot of training ie, responses, but again it is managed at a risk level so maybe even offering training to non-managers would be beneficial to ensure coverage when people are away or acting up in a delegated role.*

- *I feel like I am held fully responsible for anything that goes wrong, but I have little authority to change any of the systemic issues. Any successes are captured further up the organisation*

- *Not quite sure of this question. There are areas where responsibilities are spread across the department and hence who holds decision-making authority is not always clear.*

- *Roles are not clearly defined and there is a degree of duplication*

Good processes were highlighted...

- *Yes, comprehensive information.*

- *Budget managers are held accountable for their budgets which have been allocated in accordance with the appropriations and must sign a statement of responsibility at the end of the financial year.*

- *The Department has recently reviewed and refreshed its (statutory and financial) delegation's policies.*

- *Yes. There is a formal Human Resources & Finance delegations' policy. Most of the finance delegations are system-enforced.*

with clarity in expectations…

- *As two separate activities, Delegated Financial Authorities are clear - role responsibilities are less clear eg, governance role, endorser versus project sponsor versus responsible owner.*

- *Legislation determines some roles and responsibilities (eg, delegations). Otherwise, the Department determines roles and responsibilities.*

- *The roles and responsibilities are comprehensively determined and documented in the Ministry's policies, delegations, and role descriptions.*

- *Very clear delegation's document.*

- *Yes, the delegated authorities and responsibilities are clear and laid out on our intranet page.*

- *Individuals are given Delegated Financial Authority.*

- *Yes. The Department has a delegation's framework that is updated regularly.*

- *This is clear in relation to my branch.*

and good relationships between Finance and Operating divisions…

- *Roles and responsibilities within the team are clearly defined and contact information is available.*

- *Managers tend to use their management accountant as the central contact point for finance staff. And this works well.*

- *Good allocation of roles and responsibilities with excellent support through the business partner model.*

- *The Finance team is accessible by all and help with financial based queries. We have clear financial delegations which are published on the intranet.*

- *Internal Controls policy (Finance) outlines roles and responsibilities. As already mentioned, dedicated finance staff support each area.*

- *Starting out I was totally unsure how to manage a cost centre, but the finance team are really handy and approachable, and they have a lot of resources available. I think a mandatory course at each risk level on how to manage cost centres would be a good idea, to ensure staff are aware of the roles and responsibilities, which could align to AOG management to skills transfer across if public service members move.*

- *Dedicated Finance staff (Senior Business Manager and Business Advisor) support each district and the organisation structure.*

- *I can't comment on whether finance staff have clear roles and responsibilities generally, but I do know who I contact if I have any queries.*

- *We have a dedicated finance resource which has been very helpful but my experience with the areas responsible for paying invoices has been patchy.*

with the major concern raised being resourcing.

- *Actions plans are not properly resourced or funded.*

- *Unfortunately, the resources tend to be overcommitted and the Ministry has to remain flexible in order to respond to changing priorities.*

- *While risks are assigned owners, who are accountable to mitigate and manage risk I can't confidently answer the question that the associated action plans are properly resourced across the whole organisation.*

- *In some areas, yes; resourcing is a challenge, but the organisation is good at determining appropriate owners for these risks.*

- *Again, there is a significant lack of resources.*

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 is 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 2.6, above the Treasury minimum tolerance level. See chart below.
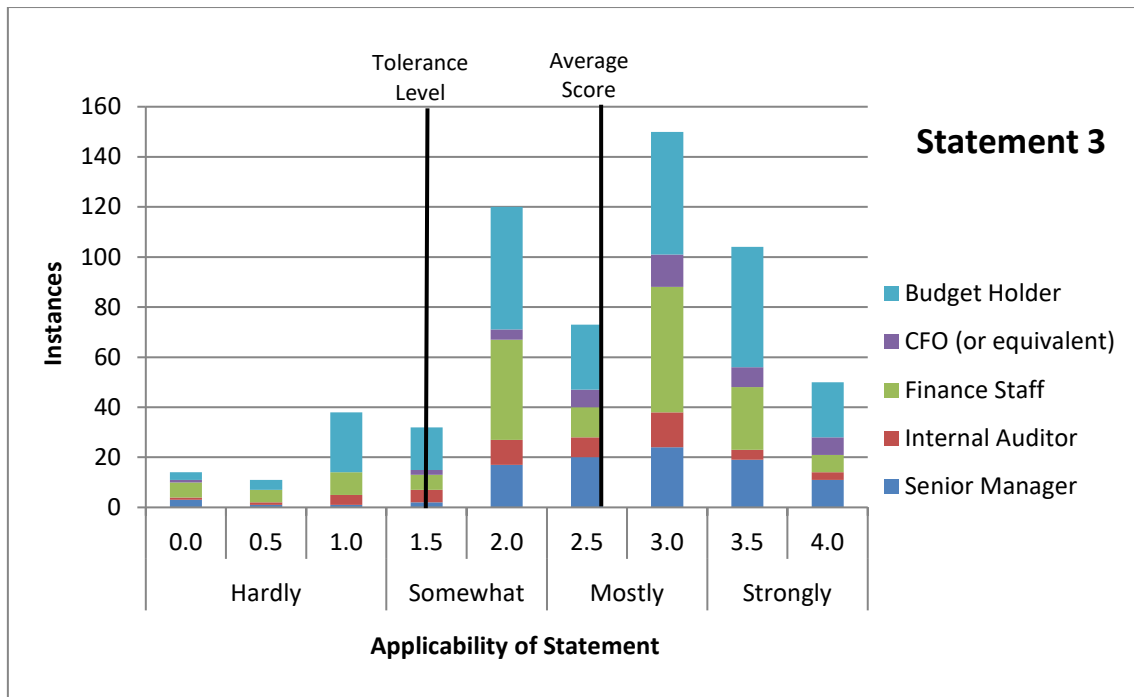
While some respondents thought that their departments did well on this element…

- *Performance expectations were transferred from other agencies upon creation of the Department. Formalised expectations around financial management will be incorporated as part of the rationalisation of contracts/expectations.*

- *In addition to my own expertise, I am very well supported by our finance teams.*

- *I haven't been through a formal performance appraisal yet having only been at the Ministry for seven months. However, my informal performance meetings with my manager cover financial management, internal control issues planning etc.*

- *Under the Departments Performance Framework) responsibility is taken by all for performance and service delivery. This includes a requirement that all DFA holders are accountable for financial outcomes in accordance with relevant law and instructions.*

- *I am held accountable for managing the financial delegation and the multiple budgets that I hold. I am required to forecast and reassess on a monthly basis. I am not able to exceed my financial delegation*

- *In my letter of expectation / letter of appointment this was clearly set out. Any issue/s with budget lines or financial management is promptly reported back to my manager.*

Others felt there was room for improvement

- *Yes, but with financial re-cuts each 6 months I feel somewhat unable to have control over my full budget.*

- *I feel there should be more oversight of this.*

- *My role with the Agency does not give me visibility over the individuals performance objectives.*

- *No KPI's, more generic rather than specific expectations and responsibilities.*

- *We don't currently have a robust performance appraisal framework in place.*

- *Performance appraisal system does not appear to be linked to the competencies of the role.*

- *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

- *Performance objectives for people leaders sets out objectives that can be used for positions that manage budgets. It is difficult to ascertain whether these are used as discretion for their use rests with the manager.*

- *Performance appraisals are conversation-based, so the line manager must specifically speak to or raise financial management competencies (rather than this being a standard-form item).*

- *The linkage is indirect ie, I'm sure that if there was poor management of budget it would be picked up and reflected in overall all project / programme delivery performance.*

- *Financial management competencies are covered but I would not say that they are determinant of performance ratings unless I make a big mistake.*

- *I don't have an annual performance appraisal, but regular chats with my manager do include financial issues, including budget concerns and realities.*

- *The Department no longer performs performance appraisals and assumes 'everyone is here to do a good job'. Job descriptions across the business are in the process of being broadened to capability based roles with no focus on specific outcomes.*

- *Performance goals do not explicitly link to financial management, but managers are still very clear on their responsibilities*

- *Although not specific, performance around accountability and decision making competencies sometimes relate to financial management performance.*

- *feedback and appraisal are variable.*

- *There is a lot of focus from Governance Committees, Deputy Chief Executives, General Managers, to Budget holders on budget management, although this may not always be formally reported in performance plans.*

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

- *Next step - we don't have a performance appraisal system yet.*

- *They are linked but not necessarily any sanctions against individuals who fail to adhere/achieve.*

- *There is little or no requirement in performance agreements. The department introduced for the first time forecasting to year end and hence there is not a culture of good financial management.*

- *It depends on the role and whether these are required...*

- *I think so for some positions.*

- *We don't have performance objectives anymore, but we do have job descriptions and policies.*

- *The performance appraisal process used does not identify specific objectives that are individually assessed, rather describes performance across roles in manuscript form.*

- *Financial competencies are included in my performance agreement but have only rarely been part of performance appraisal.*

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

- *Implicitly covered (eg, code of conduct references, org policies) that competency is required rather than explicit objectives in the performance plan.*

- *They are linked but not necessarily any sanctions against individuals who fail to adhere/achieve.*

- *Proactive and regular discussions are held about achieving financial outcomes, meeting budgets, negotiations with vendors - this is usually within a work meeting rather than a performance appraisal.*

- *There is a lot of focus from Governance Committees, Deputy Chief Executives, General Managers, to Budget holders on budget management, although this may not always be formally reported in performance plans*

- *This is still maturing, but it is certainly part of how managers are held accountable.*

- *Again, the expectation is clear. I am less clear about the nature and quality of the feedback.*

- *The organisation's approach to performance conversations means that managers of managers need to ensure these items are included in start of year and end of year discussions, as well as regular coaching conversations.*

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 3.0, above the Treasury minimum tolerance level. See chart following.
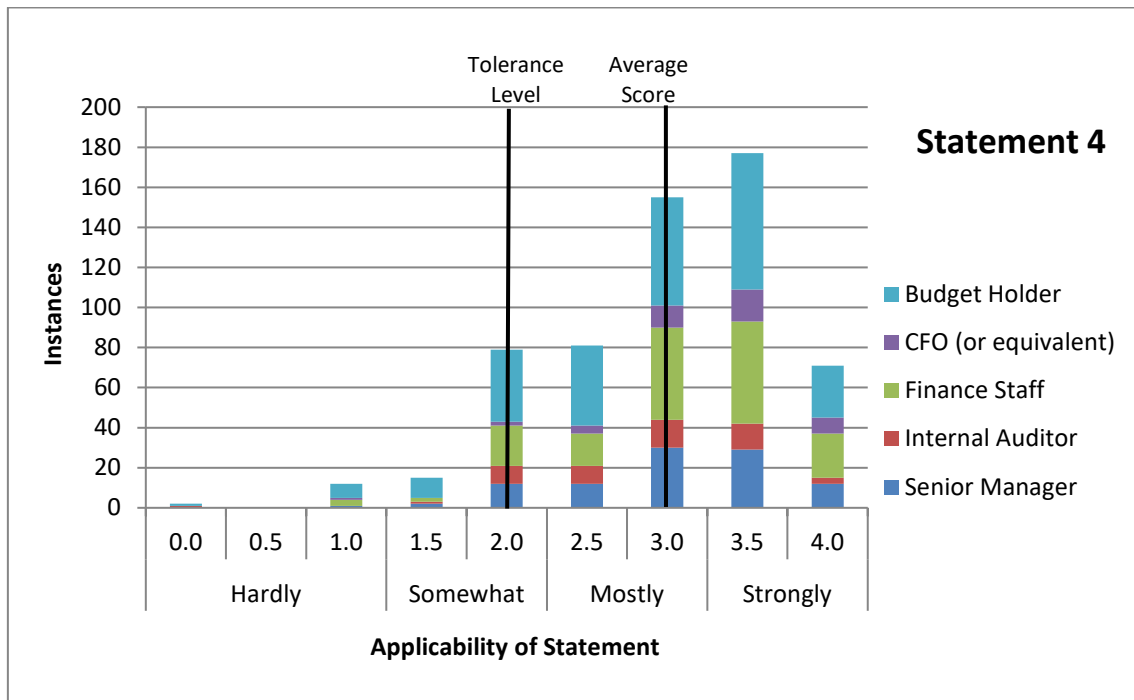
Respondents reported favourably on the levels of financial competence in departments…

- *A financial management competency framework was developed as part of a performance project in 2014/15 and is used internally within Finance.*

- *Our organisational capability framework covers this in a range of ways*

- *Managers are appointed to roles because of technical expertise or leadership expertise. It is rare for a new manager to have financial competency. This is expected to be learnt on the job. The financial team are very good at assisting*

- *There are varying levels of competence across this area - however, all managers and projects supported through financial business partners.*

- *Policies and procedures are developed to ensure the organisation is operating in accordance with its legislative responsibilities.*

- *Budget holders are required to work within the Government rules for procurement and are supported by finance business partners or similar.*

- *I have never had any experiences where I have felt that there were competency gaps in Finance.*

- *The senior positions are filled with a team who comprise a wide range of backgrounds in senior roles in both commercial and government sectors both in NZ and internationally.*

- *Senior Business Manager and Business Advisor are first port of call in regard to finance matter. This support includes regular one on one meetings with the budget holders and district commanders.*

- *Our external Auditors have commented frequently on the impressive capacity of the finance function. This is reflected in the Audit management letter.*

- *There is certainly awareness. Compliance is mostly high. We used the State Services code of conduct and worked with staff and unions to create our own which catered to our two workforces (corporate support and member support staff).*

and a number reported positively on training and professional development …

- *Budget holders don't have specific framework but are trained and supported by Finance staff that operate to a competency framework.*

- *A financial management framework is under development and should be ready for the new year*

- *There is a clear level of understanding within the financial accounting team about required competencies.*

- *A number of budget holders do not have a financial background; however, training is provided and available, along with specialist advice from finance adviser.*

- *The competencies are largely resident in personnel appointed to positions which include budget/expenditure management. 'In house' professional development, supplemented by external training, is available to address any missing competency.*

- *I would personally like more development opportunities in this area*

- *Budget holders are formally inducted into their role covering all responsibilities. System and process training are provided. There is a named support person in Finance for ongoing engagement and assistance.*

although some thought more effort is needed here.

- *A draft was circulated some time ago, but I'm not aware of one with clear visibility used throughout the organisation*

- *Insufficient formal training for managers.*

- *It would be beneficial of more specific learning modules were available to budget managers.*

- *Not a core expectation of managers.*

- *Training is inadequate compared with the expectation.*

- *There is a high proportion of managers that have been promoted internally from analyst positions - with little to no financial management experience. Training is limited to using the financial management system - no training on financial management practice.*

- *No training provided for managers other than ad hoc conversations.*

Some highlighted under-resourcing as a problem…

- *Finance function is falling behind. Investments appear strong. Regions and policy could improve.*

- *Finance team are excellent but under pressure to fill competency gaps across the business*

- *Yes, there is, but again not enough of them. A complete lack of resources.*

- *Imperative to manage closely due to scarcity of resources.*

- *There is a lack of resources is because the department pays so poorly in comparison to the rest of the public service.*

- *Competency yes, capacity of the competent resource is at times stretched.*

- *Less money always means that the competency to be able to achieve more with less becomes critically important.*

while others were concerned about turnover

- *Staff turnover requires forever refreshment of training and required skills.*

- *Currently there appears to be a number of contractors and a regular turnover of people.*

- *Noting at times staff turnover but often mitigated through staff recruitment prioritisation and targeted strategies.*

- *There has been some recent turnover in Finance function.*

- *A much bigger drive for higher performance under the current CFO. However, lots of turnover in finance, and inadequate training for new managers (despite best intentions).*

Recent improvements in financial competencies were noted.

- *The Department is, by and large, a highly numerate organisation with strong understanding of the need for and the need to abide by internal controls...*

- *Yes, I have experienced briefings and training from finance around the code of conduct and fraudulent aspects for the Ministry.*

- *The Code of Conduct is very important, and all staff are expected to renew their knowledge of this annually.*

- *I believe it has increased. I think this is a good thing - the more people that are aware of the processes and have financial management competency the better. It is important there is transparency and visibility on financial decision-making processes.*

- *We are improving.*

- *I think there's an increased need and grown for this across the organisation. Managers are keen to have better access to systems/tools that support improved financial management and monitoring. We are in the process of procuring a new IT tool/system to support this.*

- *Improvements in accountability and systems is getting better.*

- *Yes, financial discipline has improved.*

- *This is an area of continuous improvement for the Ministry.*

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

- *There are a small number managers and staff who are aware of the code of conduct, but do not understand what this means and how to comply with it.*

- *Always room for improvement - need to target areas of poor performance and specify expectations, provide training, and regularly review.*

- *Downgrade in ESCO rating for 17/18 from Very Good too Good for Financial Information systems and controls.*

- *Yes, but there can be confusion between codes of conducts, rules, legal requirements, and departmental policy. These could be better crystalised and communicated into a single source of truth for budget managers to ensure against accidental noncompliance*

- *There is a steep learning curve when becoming a budget manager. Briefings do occur to ensure heads of projects are fully versed in what delegated authorities they have and how the budgets operate, however there still a reliance on finance staff to ensure information is accurate and entered correctly.*

- *Financial management competency could be improved in other areas.*

- *A lot of unnecessary policy noise has been removed in recent years with the Departments executive's focusing on enabling us to be less prescriptive and more principles based. This has demonstrated the importance and stature of the policies that remain.*

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 3.3, above the Treasury minimum tolerance level. See chart below.
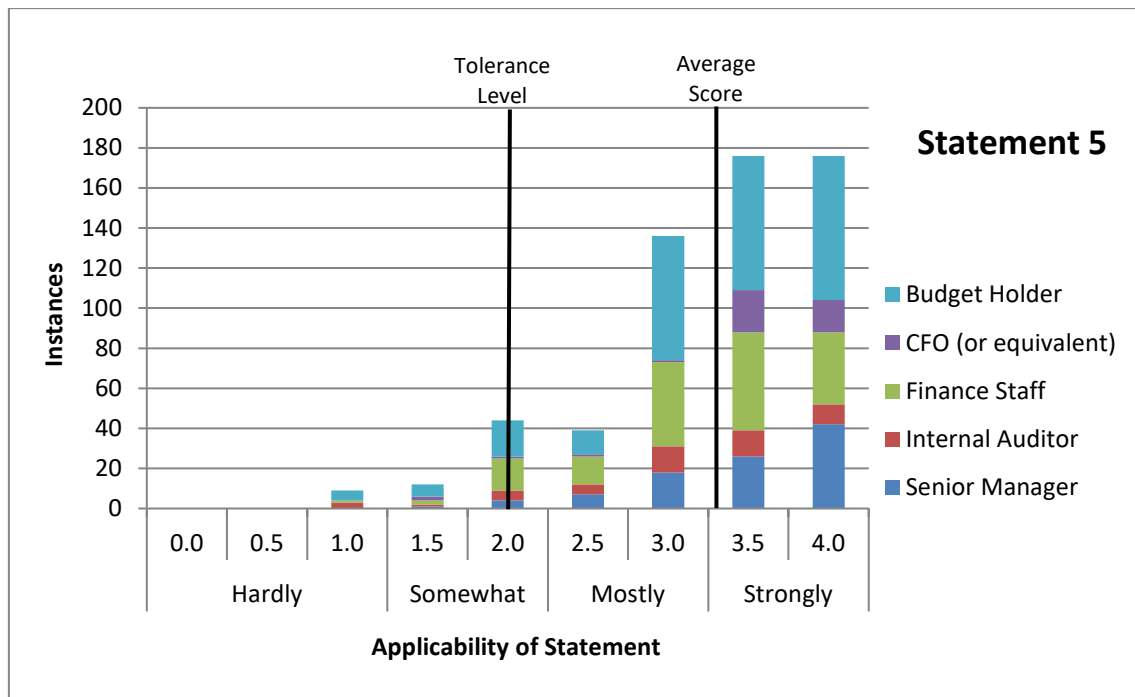
A significant number of positive comments were made about the tone at the top

- *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.*

- *Leader led culture.*

- *Organisation has a culture of wanting to do the right.*

- *This is improving with the change in Senior leadership and the Executive Leadership Team.*

- *Our Leadership Team set a strong example to all staff.*

- *Setting tone from top to ensure all policies and practices are fit for purpose public sector organisation.*

- *There is a strong commitment to our obligations under the Public Finance Act at executive leadership team and senior leadership team levels.*

- *The executive (downwards) are very effective at providing examples of appropriate behaviour.*

- *Only really give this such a positive score because of the messaging which comes directly from the Commissioner, and is amplified by other executive members like the DC: Resource Management*

- *High standards demonstrated at the top drives motivation and adherence to good practice and application of internal controls.*

And a few observed improvements in train

- *We have some growth to develop a culture of wanting to do this as currently it is about compliance rather than good business practise.*

- *Greater emphasis over the last few years has seen this as a priority*

- *This is improving with the change Leadership.*

- *Should improve with new financial controller*

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

- *We have some growth to develop a culture of wanting to do this as currently it is about compliance rather than good business practise.*

- *The organisation should have done better around financial controls and there was some lack of leadership from the top on this issue.*

- *Overall, yes, although there do seem to be some behaviours in lower management that are not acknowledged or addressed.*

- *No visibility of how the executive leadership team adheres to internal control policies. My immediate manager does not have a budget at all so cannot walk the talk.*

- *Previously there have been examples of very poor spending by very senior management which sends a poor impression through the organisation.*

- *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.*

- *Again, it's mixed. There are some real champions but also some Executive members who don't consistently role model a concern for internal controls.*

- *Some are great, some not so.*
- *Unfortunately conduct at ELT level has not been exemplary. There has been a lack of engagement with middle managers and lack of leadership. The acting leadership has worked to address this in the time he has been here but low visibility of senior managers.*
- *Some examples where the department does not apply the same standards that we would expect of other entities eg, retaining funds and reprioritising to other initiatives.*

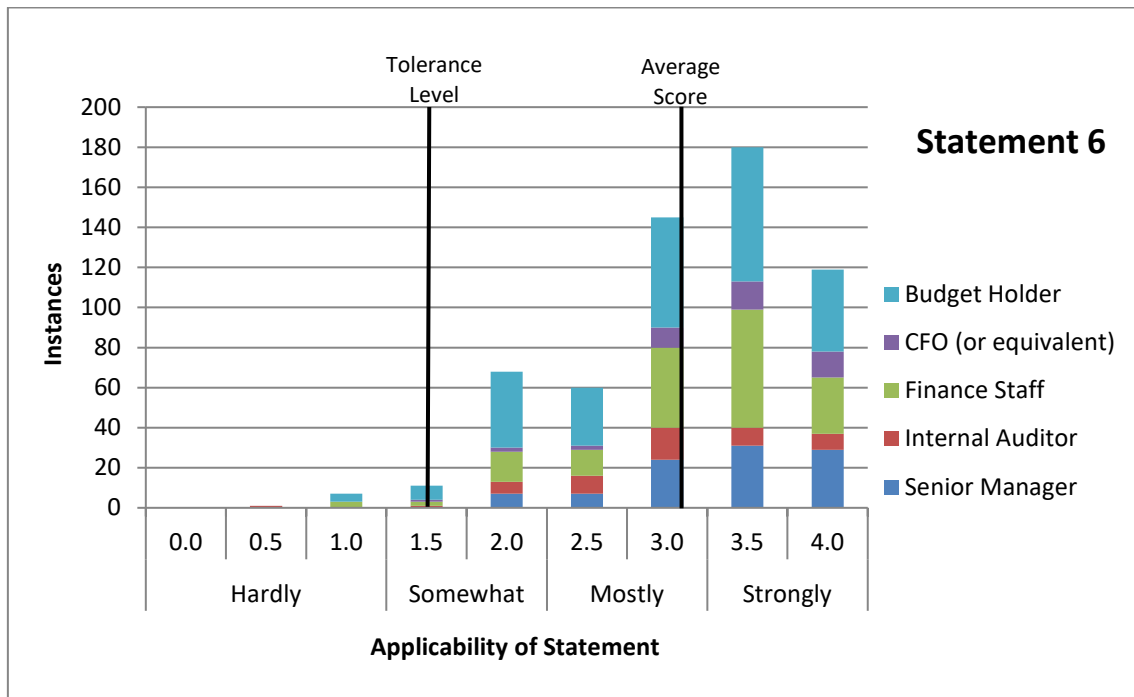# 6   Internal controls respond to risks

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.*

- *This is an area where we are working overtime to review the alignment of controls with the Ministry's organisational risks and risk appetite. We inherited or adopted another Ministry's policies and controls on establishment so are still working on this.*

- *Key control areas currently under review.*

- *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.*

- *All policies and controls have been reviewed as part of org review and number of external reviews. A regular review process is being put in place.*

- *We will review the policies we have and amend and tailor them to meet our needs.*

- *We have access to procedures, but this is one process we need to review in light of the establishment of the organisation to ensure that the processes meet our needs.*

Some pointing to the role that internal audit plays.

- *This is a finance team responsibility. I am aware of some internal policy reviews eg, delegations.*

- *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.*

- *The Department undertakes reviews of internal controls as part of an internal audit programme and provides recommendations for improvements.*

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

- *This was not done in recent years but there has been a noticeable improvement since the beginning of the year.*

- *Frequency of review could be improved.*

- *Continuous reporting improvements, delegation's policy revised recently, other financial policies due for refresh.*

- *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.*

- *There could always be improvement through education and communication.*

- *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.*

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

- *lines of authority could be clearer: some risks yes clear escalation path eg, public health disaster, emergency planning, but bowel screening pilot?*

- *Yes, within my business unit there is a clear escalation path and our tier 2 manager will escalate to the leadership team as required.*

- *The size of or organisation means everyone is close to the Leadership Team - escalating risks is easy and done when required.*

- *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.*

- *Yes - automatic escalation for high rated risks depending on rating of risk according to risk matrix.*

- *There is a general expectation that everyone will escalate risks that they can't manage within their delegations*

However, a few thought that the controls were too burdensome.

- *By removing the people from the centre who dealt with finance on a day to day basis, the responsibility for approving has been delegated upwards. This means the people who are responsible do not have time to look carefully at expenditure and rely on the average person being honest. For large expenditure yes, but not at the lower level.*

- *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 3.0, above the Treasury minimum tolerance level. See chart below.
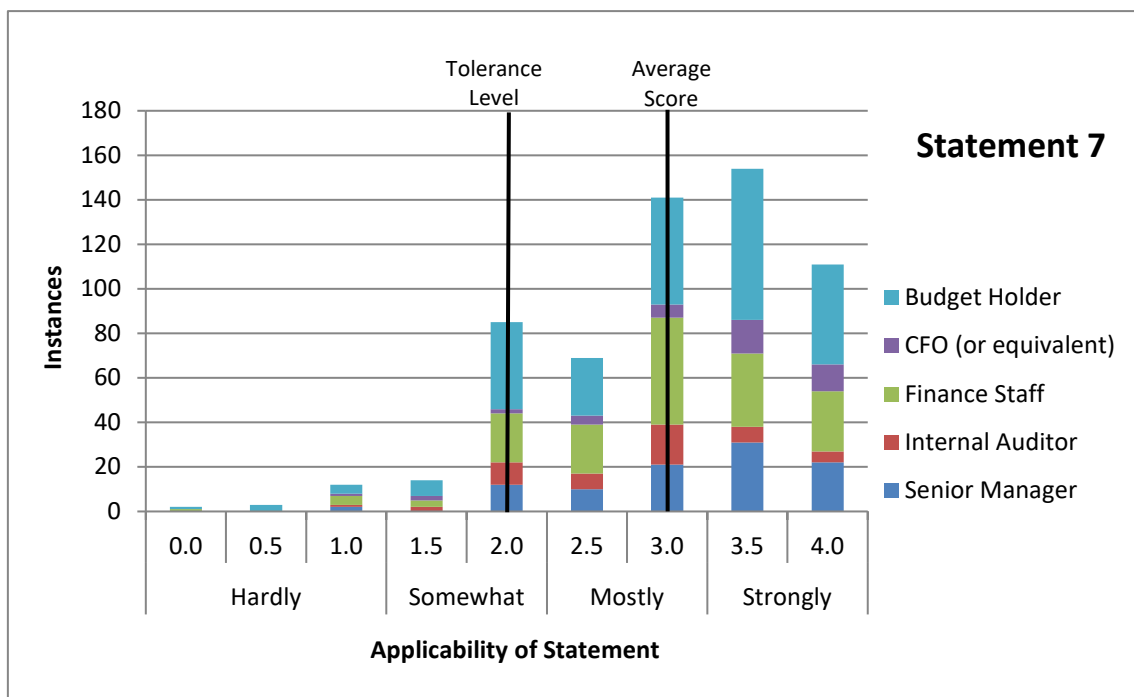
Communication procedures were generally considered to be good

– *Where there are changes or upcoming deadlines these are well communicated.*

– *Yes, we do have a regular communication across hierarchy which includes Finance, as well as, discussions at team meetings. DFAs, Travel, Policy, and Internal Control policy are available on Intranet.*

– *There are routine conversations, reporting and periodic events that take place regarding communication about internal controls.*

– *Clear guidance on Intranet, support from Business Advisors 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.).*

– *Staff are aware of the significance of their roles, function and applicable controls.*

– *The organisation uncovered and attempt to defraud us. This was communicated well and served as a reminder of the importance of doing things properly.*

– *Information on financial processes is available to staff on the intranet and through targeted communication on processes such as the purchase to pay system and year end requirements.*

– *Regular communication is provided. All personnel involved receive support and have a finance contact to assist if needed.*

– *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.*

– *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.

- *Certainly, communication is provided - not 100% sure how well this is translated/focused on across the various business groups.*

- *The information is put out there each year, but also relies on staff reading internal communications, and to keep themselves informed.*

- *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 3.1, well above the Treasury minimum tolerance level. See chart following.
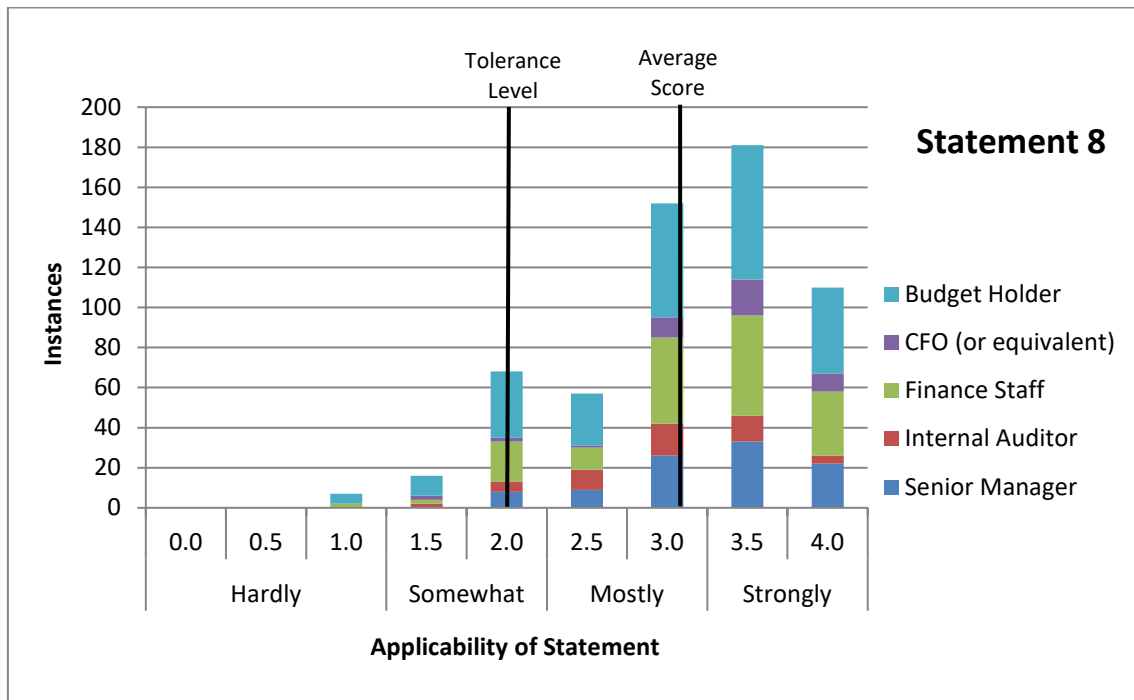
A number of respondents positively commented on processes to monitor and evaluate controls

- *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 by the Finance staff.*

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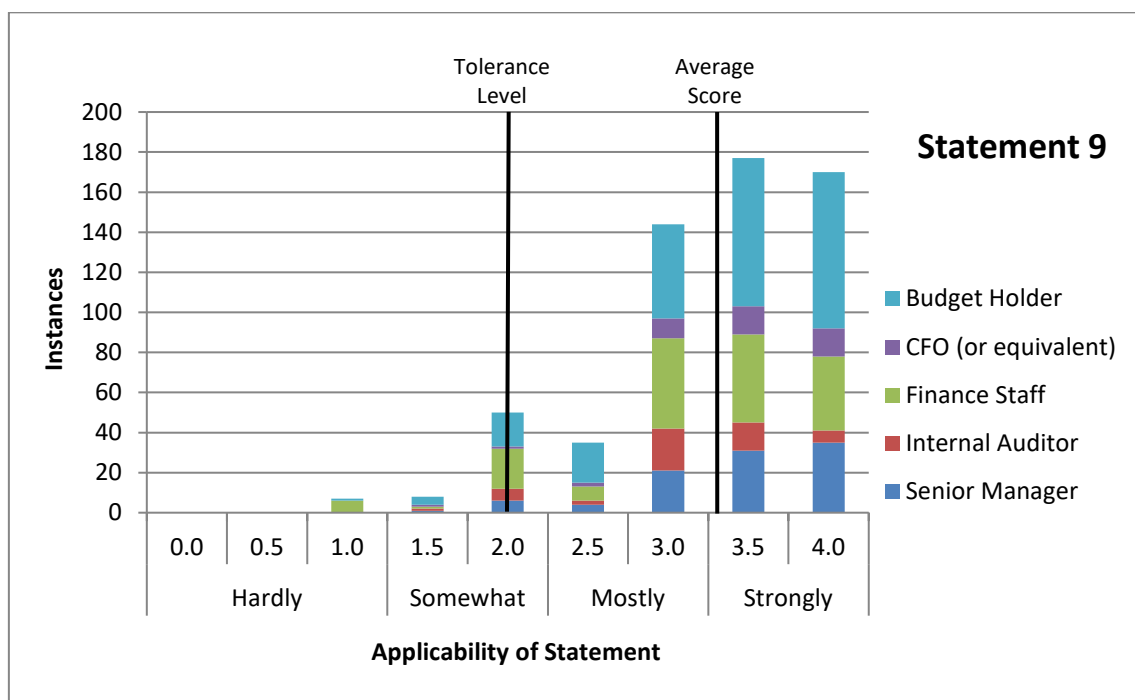
The prompts for considering this statement included questions on the effectiveness of audit committees, and on openness to and resolution of public complaints, and whether the organisation consistently meet its obligations under the Official Information Act 1982.

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.*

– *Call centre in place to deal with questions and feedback. 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.*

– *Reforming 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 regard 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.*