



Sector Update for Crown entities
Audit findings and observations
Some reflections

Karen Young
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Hello and good afternoon.

Welcome to the session on audit findings, observations and some reflections from last year's audits in central government.

Its good to be able to share these with you.

Please note – this is not an exhaustive list.

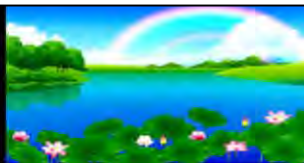
Covering



- Operating context
- Annual audits
- Results from annual audits
- Reflections:
 - Governance and accountability
 - Management and financial control environment
 - Performance reporting
- Annual reporting
- Trend alert

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Operating context



- Government returned to surplus in 2014/15. Fiscal constraints continue.
- Managing the Crown Balance sheet
- Central agencies continues to lead, drive and support agencies to improve state sector performance.
- Continuation of initiatives to improve the State sector's performance, efficiency and effectiveness.
- State Sector and Public Finance Reforms
- Recovery Plan and Regenerate Christchurch legislation supporting Canterbury rebuild and regeneration

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- Government returned to surplus in 2014/15 of \$414m. Fiscal constraints continue.
- **Managing the Crown Balance sheet** through long-term focused and better physical asset and investment management.
- **Central agencies** continues to lead, drive and support agencies to deliver on the Better Public Services programme goals and improve the performance of the state sector.
- Continuation of **initiatives** to improve the State sector's performance, efficiency and effectiveness, including functional leadership, alternative approaches to delivering services, strategy refreshes, and initiatives to improve the efficiency of administration and support services.
- **State Sector and Public Finance Reforms** enable improved financial flexibility and gives entities the opportunity to provide more meaningful information to Parliament and what the Government is spending and achieving, and cross agency and cross sector collaboration.
- In the next stage of **supporting the Canterbury rebuild and regeneration**, the Government has announced the Recovery

Plan to move the next stage to local leadership with ongoing co-operation between central and local government.

Can be summed up as we are all operating in a changing environment.

Annual audits

- Annual audits provides assurance.
- Insights can help organisations improve.



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We believe the insights an audit can provide can help organisations reflect on how they can improve and manage risk better at a time when ongoing changes are happening across the public sector.

Results from annual audits

- Fundamentals working well.
- Recommendations on significant matters are few.
- Challenge - build on sound control environments

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During the audit we review the overall control environment, financial management and performance information management systems and controls.

We found:

- The fundamentals working well.
- Recommendations on significant matters are few.
- We see the challenge is to build on sound control environments to create a more sophisticated organisational environment that allows the organisation to maximise its contribution to the public sector.

On reflection this requires:

- good governance and accountability;
- strategic leadership practice, and;
- integration of corporate functions into operations and policy work.

Our reflections on governance and accountability

- Appropriateness of arrangements.
- Many organisations are working to improve governance.
- Good practices observed.
- What you might like to check are in place.

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An organisations' governance and accountability arrangements needs to support effective delegations, provide clarity about management and reporting responsibilities, and the consideration of risks and their mitigation.

If these are in place, then management can manage the organisation and consider its medium and long term direction, rather than managing operational details.

We noted many organisations are working to improve governance as part pf improving the control environment.

Good practices we observed:

- Good use of governance committees and audit committees with appropriate terms of reference
- Formal and structured approach to risk with a range of internal assurance mechanisms such as internal audit and independent quality assurance. These support those in governance.
- Risk framework in place, risks being mitigated, monitored and regular reporting on risks at the right level.

What you might like to check are in place/what we would like to see more of:

- Governance that is based on clear accountability.
- Strong alignment between outcomes, internal controls (to ensure the integrity and accuracy of information) and performance monitoring.
- More mature risk management, so risk management practices that goes beyond compliance and avoidance focus.
- Strengthening controls to mitigate the risk of fraud.
- A continuous improvement mentality, including implementing recommendations from previous audits and other reviews in a timely manner.

Our reflections on strategic leadership

Relationship between audit findings and strategic leadership?



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On the face it, audit findings seem to be all about improving controls and processes. However, deficiencies in systems and processes takes up valuable management capacity and ultimately effectiveness.

For example, in the absence of governance and management structures that ensure you get the right information on how the organisation is performing, often you will have to spend time on operational issues that you could spend on exercising strategic oversight.

Our advice is to keep an eye on the basics and do them well.

Our reflections on integration

Integrate corporate functions into operations and policy work

... it is everyone's responsibility.

It's a win-win.



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Many organisations could better integrate what is traditionally regarded as corporate functions into operations and policy work. Corporate functions such as financial and investment planning, monitoring, risk management and performance reporting should be mainstreamed across the business. Making it everyone's business and responsibility, not only improves the quality of planning and operations, it frees up specialists (such as in finance and procurement) to manage exceptions and think through big issues and risks, and the future.

Management and financial control environment

- Change environment - strong foundation important.
- Our assessment - control environment are mostly 'good' or 'very good'.
- Common findings in:
 - Financial oversight
 - ICT controls
- What you might like to check are in place.

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In an environment of change, it is even more important that there is a strong foundation for managing the organisation and its finances: The right tone from the top on integrity, culture, values and ethics is essential & knowing that the right systems and controls is reassuring. Management and financial control environments are generally sound - we have assessed most organisations as good (we recommend some improvements be made) or very good (we had no recommendations). However, some organisations are letting the side down.

We would like to share with you some specific findings on financial oversight and ICT controls.

Financial oversight:

- **Records for audit.** Some organisations that were unable to provide records for audit need to urgently catch up on the basics.
- **No independent review of transactions or journals.** In the absence of independent approval of a transaction or journal

entry, the organisations' risk of fraud or error increases. Having appropriate internal controls in place is paramount.

- **Some organisations had payroll issues** (systems, processes and/or control issues). Given personnel costs account for 60% or more of total expenses for many entities, we will always have a focus in this area, and so should you.

ICT controls – a number of entities are still struggling with the basic fundamentals when it comes to IT, including ensuring users' access is appropriate to their roles, and ensuring access is terminated when the person leaves the organisation. Such lapses in control processes could have serious consequences such as fraud, identity theft, cyber-crime or information leaks. There have been a few instances of scams. We urge you to remain alert to these.

What you might like to check that you have in place/what we would like to see more of

- Better policies, processes and practices. Training.
- Documented evidence of independent approval of transactions.
- Appropriate systems to avoid reliance on manual workarounds and risks to accuracy and business continuity.
- Strong password controls and user access controls to prevent unauthorised access to computer systems.
- Adequate business continuity planning and testing.

Performance reporting



- Integral part of public sector accountability.
- Generally done adequately.
- Better planning and reporting.
- Deficiencies that affect the accuracy and quality of information.
- What you might like to check are in place.

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Performance reporting is an integral part of public sector accountability because it allows Parliament and interested citizens to assess the entity's performance.

Generally, performance reporting in the sector is good. However, some still miss a trick because they look at performance development and reporting from a compliance angle.

Organisations that plan and report better do the following:

- Involve the business in setting performance measures and objectives.
- Use performance information to drive and manage performance.
- Build continuous feedback loops that help set, monitor and review progress against strategic objectives.
- Focus their reporting on effectively communicating what matters about their performance.

Deficiencies that affect the accuracy and quality of information:

- Performance framework not clearly articulated – line-of-sight

between strategic objectives and the entity's outputs are unclear.

- Absence of performance measures that provide information on the quality of performance or, of the services provided.
- Inconsistencies between performance information used internally, to make strategic and operational decisions, and that used for external reporting purposes.

What you might like to check are in place/what we would like to see more of:

- Strategy and performance frameworks that are set out clearly with linkages to “what is intended to be achieved” over a strategic time-frame and annual output delivery.
- Performance information used as a management tool, not just for external reporting purposes.
- Performance measures that are reviewed in line with new areas of activity and funding.
- Clear and defined methodologies (and data dictionary) for measuring each performance measure to ensure there is a common understanding by staff.
- Appropriate systems in place for capturing information, with sufficient appropriate controls in place to protect the integrity and accuracy of underlying information.
- Assurance reviews over performance information and results, and verification processes over third party data.

Legislative compliance

Ensure system is design effective.



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Ensure the legislative compliance system employed is design effective.

Can't just be a check after the event.

System should ensure compliance. Best systems are embedded into business processes.

Areas covered elsewhere in detail today

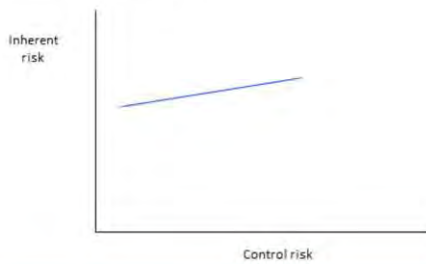
- Risk management
- Procurement
- Contracting and contract management
- Investment and asset management
- Transition to IPSAS



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Risk management

- High levels of inherent risk in the sector.
- None have high control risk.
- Some entities with high inherent risk have weaker controls than we would expect.
- Many entities framework are poor or needing improvement. Fit-for-purpose important.



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Assessing the quality of risk management frameworks, not just their existence, should be a priority for the sector.

Procurement and contract management

- High level of inherent risk due to:
 - Big dollar spend
 - Number, size, complexity of processes and arrangements. Delivered through third parties
 - Large volume of capex in sector
- Control risk that requires consideration:
 - Contents of policies and guidance
 - Assurance that contracts are well managed



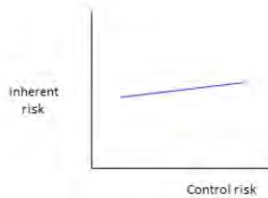
"Looks like he used the escape clause."

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Asset management



- Practices vary widely.
- Some with higher inherent risks also have weaker controls.



- Weaknesses include:
 - Lack of improvement plans for enhancing asset management planning
 - Whether asset management planning informs forecasting is uncertain.
 - Lack of regular reporting against achievement of, or implementation of the asset management planning - both service levels and financials.

Crown entities reporting changes



- Main legislative changes and impacts last year:
 - progress against Strategic Intentions;
 - report in Statement of Performance against Statement of Performance Expectations;
 - (some entities) reporting entity for end-of-year performance information for appropriations (s19 PFA). Changes to Statement of Responsibility to reflect this.
- Knowledge and preparedness mixed.

Learnings from reporting round

- Requirements of Public Finance Act 1989 section 19A *Provision of end-of-year performance information than by Ministers*
- Departments and Crown entities continue to work together
- Reporting against strategic intentions (direction of travel) – narrative in place of performance reporting not generally acceptable,



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In some cases the Crown entity is the performance reporter for an appropriation. This means the Crown entity is required to report against the performance measures and the appropriation in its annual report. We found that:

- Some entities were unaware of this requirement – in some cases, they were not told by the department that they had been nominated as the performance reporter for the appropriation.
- The appropriation does not necessarily equate to the output class(es) – not that it has to. However, unless the appropriation equals the output class, the cost of service statement only may not be enough to satisfy the PFA requirement to report against the appropriation. Additional-further disclosures maybe required.
- Performance measures in the Estimates of Appropriation were in some cases additional to and/or different from the ones in the Statement of Performance Expectation measures/targets and standards. All performance measures were required to be reported on, and an explanation required to reconcile the targets or standards if they were different.

- Some performance measures were duplicated in the Estimates of Appropriation and the Statement of Performance Expectations.

Consequently, we recommend that:

- Departments and Crown entities continue to work together to coordinate performance measures across planning and reporting documents.
- Crown entities need to understand what is required to be reported on in the annual report especially if it has been nominated as the performance reporter.

Trend alert



- **Flexibility** in reporting information
- **Greater openness and transparency** in Government processes
- Public services **more responsive and tailored**
- **Demonstrate** impact
- About **convenience**
- Maintaining **relevance**
- **Auckland presence**
- **Developing leaders and succession planning**



"WHEN I ASKED IF YOU WERE FLEXIBLE, MRS. HARKNESS, I WAS TALKING ABOUT YOUR HOURS!"

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- **Flexibility in reporting performance** – for example, integrated reporting, in a sector or programme report
- **Greater openness and transparency** - for example, Open Government Partnership to recognise engagement with society and decision-making, Treasury release of Official Information Act requests, Treasury's release of performance of major monitored projects and programmes
- Expect public services to be **more responsive and tailored** – for example, to multi-cultural society, to individuals)
- **Demonstrate** impact
- About **convenience**
- Maintaining **relevance** in a changing environment, digital age
- **Auckland presence** - for example, the State Service Commission have appointed a Deputy Commissioner (Lewis Holden) for Auckland "This is a first step to the state services engaging more effectively with Aucklanders to better understand what they need from us and how they need us to deliver it")

- **Developing leaders and succession planning** – growing the pipeline

Questions

QUESTION...



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Thanks for your participation and questions

THAT'S A GOOD QUESTION!



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Cookie time



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