



Audit findings and observations

Some reflections

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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.

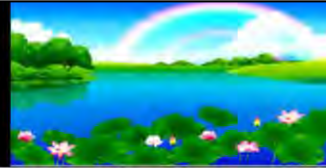
Please note – this is not an exhaustive list.

Its good to be able to share these with you.

Covering

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

Operating context



- 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.

Annual audits

- Annual audits provides assurance.
- Insights can help organisations reflect on how they can improve and manage risk better.



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Annual audit provides assurance over the activities of, and financial position of the organisation.

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 is to 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.

Governance and accountability

Arrangements need to support effective delegations, provide clarity about management and reporting responsibilities, consideration of risks and their mitigation.

If in place, then management can manage the organisation and its direction, rather than manage operational details.

Many organisations are working to improve governance.

Good practices observed:

- Good use of governance committees and audit committees
- Risk framework in place and regular reporting on risks at the right level
- Internal assurance mechanisms

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An organisation's governance and accountability needs to support effective delegations, provide clarity about management and reporting responsibilities, 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.

Many organisations are working to improve governance as part of improving the control environment.

Good practices observed:

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

... governance and accountability

What you might like to check you have in place:

- Governance that is based on clear accountability.
- Strong alignment between outcomes, internal controls and performance monitoring
- More mature risk management – goes beyond compliance and avoidance focus.
- Strengthening controls to mitigate the risk of fraud.
- Continuous improvement in governance structures and risk management, including implementing recommendations from previous audits and other reviews in a timely manner.

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Strategic leadership

The relationship between audit findings and strategic leadership

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.



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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.

Integrate

Corporate functions into operations and policy work

Financial and investment planning, monitoring, risk management and performance reporting should be mainstreamed across the business.

... it is everyone's responsibility.

It's a win-win.



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Integrate corporate functions into operations and policy work.

Many organisations could better integrate what is traditionally regarded as corporate functions into operations and policy work.

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.

Management and financial control environment

Management and financial control environment in an environment of change, having a strong foundation for managing the organisation, control environment and finances is important

- Our assessment of the control environment are mostly 'good' or 'very good'.
- Specific audit findings to be mindful of and what you might like to check that you have in place
 - Financial oversight
 - ICT controls

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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: right tone from the top on integrity and ethics & 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 timely records for audit need to urgently catch up on the basis.
- **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.** Given personnel costs account for 60% or more of total expenses for many entities, we will always have a focus in this area.
- **Appropriation breaches.** It is your responsibility to ensure spending is within appropriations. Some entities recorded breaches of appropriations. Sometimes when breaches can result from unforeseen demand, breaches might be difficult to avoid. However, some breaches could have been avoided with more timely anticipation of future events and their financial consequences.

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, 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

- 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



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

- Our assessment - generally performance reporting in the sector is done adequately.
- Specific audit findings relate to deficiencies that affect the accuracy and quality of information and what you might like to check that you have 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 look at performance development and reporting from a compliance angle.

Organisations that plan and report better:

- 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.

Specific audit findings to be mindful of:

- 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 that you have in place:

- 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 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

Legislative compliance systems - ensure system is design effective.

Can't just be a check after the event.

System should ensure compliance.



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Ensure the legislative compliance system employed by the organisation 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

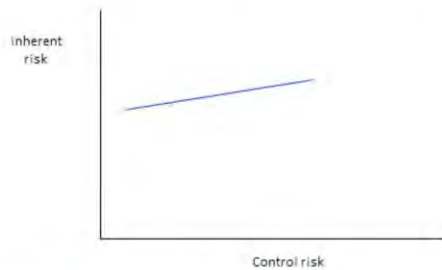
- Risk management
- Procurement
- Contracting and contract management
- Investment and asset management
- Transition to International Public Sector Accounting Standards



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Risk management

- No central government entity has high control risk, but there are high levels of inherent risk in the sector. The trend line is heading up, meaning that some entities with high inherent risk have weaker controls than we would expect.
- We judged many entities framework to be poor or needing improvement. Assessing the quality of risk management frameworks, not just their existence, should be a priority for the sector.



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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
 - Volume of capex in sector
- Control risk that requires consideration:
 - Contents of policies and guidance material
 - Assurance that contracts are well managed



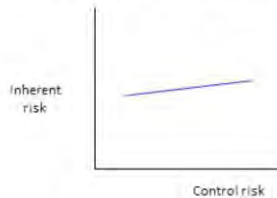
"Looks like he used the escape clause."

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Asset management



- Practices vary widely across the sector. Alarming, the trend line showing the relationship between inherent and control risk slopes the wrong way – meaning that the entities with some of the higher inherent risks also have the weaker controls.



- Weaknesses include:
 - A lack of an improvement plans for enhancing asset management planning – and where they do exist, questions over whether they are being implemented.
 - Uncertainty as to whether asset management planning informs the forecasting processes employed by the entity.
 - A lack of regular reporting against achievement of, or implementation of the asset management planning - both service levels and financials.

Department reporting



- Main legislative change or impact last year:
 - report progress against strategic intentions;
 - requirement to report end-of-year performance information for appropriations and where;
 - appropriation statements (some changes in content)– outside of financial statements;
 - more flexible appropriations available;
 - ability to report information in document other than annual report; and
 - changes to Statement of Responsibility.
- Knowledge and preparedness was mixed.

Who reports performance against appropriations?



The Estimates states **who** will provide performance information for **each appropriation** - **unless** that appropriation is **exempt** from performance reporting, and where.

Establishing whether performance information is to be reported, who by and where.

Who reports performance against appropriations?

- **Multi-Category appropriation (MCA)** – the performance information is required to be provided by the appropriation administrator in its annual report at the appropriation level and for each category (departmental and non-departmental) of the MCA (audited)
- **Departmental appropriations** – the Appropriation Administrator (department or office of parliament) (audited)
- **Non-departmental appropriations** – funding provided to:
 - a) **Crown entity** (audited)
 - b) **Department/departmental agency/Office of Parliament** (audited)
 - c) **NGO or other third party**, then either Appropriation Minister's report [s.15C2(b) PFA] (not audited) but if in appendix to annual report *ISA 720 Other Information in documents containing the audited financial statements applies*, or exempt from the need to provide performance information under s.15D(2) PFA (N/A - no performance information to audit)

Learnings – legislative compliance

Some departments only be partially complying with the amendments to the legislation – ensure full compliance in coming year.

We will work with departments to ensure full compliance.

Learnings - specifics

- **Report performance information for an appropriation, unless it has been exempt:** Requirement extends to PLAs (such as Capital Expenditure PLA).
- **Multi-Category appropriation (MCA)** – the performance information is required to be provided by the appropriation administrator in its annual report at the appropriation level and for each category (departmental and non-departmental) of the MCA (and have it audited). Need to report on actual expenses and performance for each category of expense within that appropriation as well as reporting actual expenses and performance for the entire appropriation.
- **Reference from the statement of expenses and capital expenditure to where the performance information is set out.** Where an appropriation is exempt from performance reporting, then need to say so.
- **Departmental capital appropriation** - Measure sometimes not defined, so no common understanding of the measure amongst staff. Performance information against the appropriation not always reported on in annual report.

Learnings - specifics

- **Reporting against strategic intentions (direction of travel)** - Some inconsistency. In some cases, management commentary in performance report is used as a substitute for performance information. This is not generally acceptable.
- **Appropriation statements** - May not reflect all of the new requirements. May still be included in the financial statements.
- **Performance information not covered by the audit opinion when it should be**, ie the information is in the annex or appendix to the annual report, but it should be in the annual report.
- How does the department ensure that the Crown entity reports the required performance information and expenses against the appropriation **when the Crown entity is the performance reporter**.

Trend alert



- **Reporting** – in sector or programme report
- **Greater openness and transparency** in Government processes expected (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 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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