



# **Review of the “Cost-effective Internal Control Guidelines – Underpinning Agency Performance”**

## **Topic Paper 4**

### **“Statement of Assurance”**

#### **Summary of Feedback**

Prepared by Queensland Treasury  
January 2009

In September 2008 Treasury commenced reviewing the document “Cost-effective Internal Control Guidelines – Underpinning Agency Performance” (current guidelines). As part of the review, 5 topic papers were released for comment on the Treasury website.

The purpose of this document is to acknowledge and summarise the feedback from stakeholders on “Topic Paper 4 – Statement of Assurance” (Topic Paper 4). Therefore, this paper is to be read in conjunction with Topic Paper 4, available on Treasury’s website.

Topic Paper 4 discussed the requirement in the Financial Accountability Bill for departmental chief finance officers (CFO) to provide their accountable officer with a statement of assurance prior to the accountable officer certifying the financial statements. A minimum number of issues were identified to be included in the statement of assurance, however, it is expected that the accountable officer could require assurance of additional issues.

The Topic Paper proposed providing guidance on a number of issues in the Financial Accountability Handbook (previously proposed to be the Financial Management Manual). Feedback was sought on:

- whether the proposed guidance would be useful
- additional areas for guidance with regards to the statement of assurance
- additional issues that the accountable officer may require assurance on
- any further comments on the issue.

The feedback has been summarised for the purposes of this document and the names of all individuals and agencies providing the feedback have been removed for confidentiality reasons.

### **Usefulness of guidance**

The majority of stakeholders supported the provision of guidance on applying the statement of assurance requirement with some stakeholders raising concerns such as:

- allowing the accountable officer the flexibility to obtain assurance from sources other than the CFO
- applying the statement of assurance in a decentralised environment and when using a shared service provider
- publication of the statement of assurance, especially if there are adverse outcomes
- fraud risk mitigation.

### **Additional guidance areas**

As well as the concerns outlined above, stakeholders identified the following areas for additional guidance:

- discussion around when the signing of the statement is late or content of the statement is incorrect

- role of the audit and risk management committees in reviewing the statement of assurance
- elements of the minimum requirements that the statement is to provide assurance on
- guidance on the application of the statement to additional areas that the accountable officer may require assurance on
- guidance on determining the adequacy of controls, including in areas for which the CFO may have limited knowledge (e.g. information technology)
- defining “reasonable assurance” and the limitations of that assurance
- confirmation that previously identified deficiencies have been addressed
- on identifying how internal controls address associated risks.

### **Additional areas of assurance**

Stakeholders identified a number of additional areas in which a CFO may be asked to provide assurance that were not contained in Topic Paper 4. These areas are:

- key performance indicators and other performance issues
- assurance on planning areas under CFO control such as budget, strategic asset and procurement
- assurance for abolished departments if the CFO is no longer there, including who is responsible for specific time periods
- confirmation that previously identified deficiencies have been addressed.

### **Further stakeholder comments**

- Include in the statement of assurance comments that the internal controls have been assessed for their appropriateness in addressing related risks and the extent of reliance on evidence in assessing internal controls.
- Restrict the areas for assurance to financial matters.
- The relationship of the statement of assurance to the certification of the financial statements, as the certification may be signed by the CFO and accountable officer.
- Ensure the applicable definitions and guidance are aligned with the legislation and other policies.
- As the “statement of assurance” may not be published, amend the guideline’s title to discuss publishing internal control assessment results.
- Clarify in the guidelines that external audit have no role in the statement of assurance.
- Guidance on the integration between operational performance and financial issues with regard to the statement of assurance.
- Guidance on how the assurance process is applied on a risk/reward/cost basis and if this is addressed in the statement.
- Guidance regarding the relationship between performance and conformance.

### **Treasury response**

The project team appreciates all feedback received as part of the internal control guidelines review and incorporates the comments/suggestions where considered appropriate.

A detailed summary of the points raised in the responses are set out in the “Summarised Feedback” section following.

## Summarised Feedback – Topic Paper 4

This document provides in summarised form the responses of stakeholders to the questions asked in Topic Paper 4 “Statement of Assurance”. The comments have been reviewed and placed with the most appropriate question.

All references to an individual or stakeholder have been removed to maintain the privacy and confidentiality of individuals and entities submitting the responses.

### Question 1

*Do you consider that the proposed guidance regarding the new statement of assurance will be useful to you and your agency?*

Stakeholder	Summarised Comments
1	<ul style="list-style-type: none"> <li>▪ Yes - given the proposed legislative requirement, guidance is considered helpful.</li> </ul>
2	<ul style="list-style-type: none"> <li>▪ Yes</li> </ul>
3	<ul style="list-style-type: none"> <li>▪ Yes, this guidance is essential.</li> </ul>
5	<ul style="list-style-type: none"> <li>▪ The proposed guidance will be of considerable assistance to the agency.</li> </ul>
6	<ul style="list-style-type: none"> <li>▪ Yes, the proposals outlined are supported.</li> <li>▪ Specific guidance around issues relating to obtaining assurance in decentralised or service provider environments is strongly supported.</li> </ul>
7	<ul style="list-style-type: none"> <li>▪ CEOs may choose methods other than internal audit and the CFO to obtain assurance.</li> <li>▪ Take care not to fetter or usurp the CEO’s ability to determine the best method of obtaining assurance (or technical expertise) in the context of the risk exposures and risk appetite of the organisation. For example they may in the absence of a specific legislative requirement have chosen to totally outsource the internal audit function.</li> </ul>
7	<ul style="list-style-type: none"> <li>▪ Yes. With the inclusion that the CFO is expected to gain assurances from the external shared services agency, the proposed guidance will be useful in gaining those assurances from them.</li> </ul>
8	<ul style="list-style-type: none"> <li>▪ Yes</li> </ul>
10	<ul style="list-style-type: none"> <li>▪ Yes.</li> <li>▪ Publish the Annual Statement of Assurance in the agency's annual report as this is in line with internationally accepted practice. There may be issues or concerns where adverse outcomes are reflected in the annual Statement of Assurance and published in the Annual Report.</li> </ul>
11	<ul style="list-style-type: none"> <li>▪ Yes, the proposed guidance would be useful to agencies.</li> </ul>
12	<ul style="list-style-type: none"> <li>▪ Yes</li> </ul>

13	<ul style="list-style-type: none"> <li>▪ Yes, particularly in relation to who is responsible for preparing it, what it should disclose, where it should be disclosed (annual report), and who will be responsible for reviewing it.</li> </ul>
----	--

## Question 2

*What other information would you like included in the Guidelines regarding the statement of assurance?*

Stakeholder	Summarised Comments
3	<ul style="list-style-type: none"> <li>▪ Information about the affect of the shared service environment on the responsibilities of accountable officers and the statement of assurance due to contradictions in various documentation as below:                             <ul style="list-style-type: none"> <li>○ the new SSA Assurance Framework states that “SSA is responsible for the design, implementation and maintenance of an internal control framework and structure for its operations”</li> <li>○ this seems to contradict the contents of topic paper number 3 which states the CFO is responsible for these issues, however, department CFOs do not have control of the SSA environment and therefore cannot be responsible for the SSA</li> </ul> </li> <li>▪ The recent Review of Financial Legislation in Queensland, Discussion Paper no. 4 on Governance (Summary of Feedback) recognised this issue and included a comment from a stakeholder that “with the advent of the shared services initiative, the CFO is not able to fully assess the agency’s internal controls and as such the legislation would need to be clear about which controls the CFO would be responsible for”.</li> </ul>
5	<ul style="list-style-type: none"> <li>▪ CFO’s currently give assurances to the accountable officer to allow them to give assurance to audit on additional issues to those covered in the minimum statement. For example, this assurance includes:                             <ul style="list-style-type: none"> <li>○ the financial statements are free from any material misstatement</li> <li>○ that there has been no fraud that has had a material impact</li> <li>○ assets valuations and</li> <li>○ impairment, tax issues and compliance (the list is not exhaustive).</li> </ul> </li> <li>▪ It may be useful in the additional explanations and sample Statements of Assurance to include guidance on additional assurances that may be provided but do not form part of the minimum statement.</li> </ul>
6	<ul style="list-style-type: none"> <li>▪ What considerations would be provided if the signing of the statement of assurance was late, incomplete or even wrong?</li> <li>▪ What level of accountability would rest with the CFO in a decentralised environment where it is difficult to be across all controls?</li> </ul>
7	<ul style="list-style-type: none"> <li>▪ The guidelines could explore a number of related issues:                             <ul style="list-style-type: none"> <li>○ the minimum level of investment an agency needs to make in assurance functions</li> <li>○ the options for a CFO if they disagree with the assurance assertions of a third party service provider</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ an assurance statement’s wording if there are exceptions/deficiencies and what this means in relation to financial statements and audit.</li> </ul>
10	<ul style="list-style-type: none"> <li>▪ Guidelines should provide enough information for agencies to understand what the elements of minimum assurance are.</li> </ul>
11	<ul style="list-style-type: none"> <li>▪ Whilst it is indicated that the statement of assurance will provide, as a minimum, certain high level statements by the chief finance officer, there should be provision for exceptions regarding the extent of available assurance on certain matters where these may be material e.g. lack of available bank reconciliations for a certain period, a breakdown in the accounts receivable system, extensive aged debtors.</li> <li>▪ With regard to shared service arrangements: extent of reliance on controls managed in that environment, and possible areas where there may be confusion as to who is responsible e.g. recent examples have been identified regarding checking of delegations prior to approval of purchase orders where the agencies are relying on checks by SSA as evidence appropriate delegations are obtained but the SSA officers only check for a signature not whether it is an appropriate one.</li> </ul>
12	<ul style="list-style-type: none"> <li>▪ It needs to be emphasised that absolute assurance cannot be attained. All that can be provided is reasonable assurance. Guidance should consider how to determine what “reasonable assurance” means in this context.</li> <li>▪ The CFO needs to provide assurance in relation to some areas over which they do not have complete control. For example: <ul style="list-style-type: none"> <li>○ how is the CFO to gain the necessary assurance over the adequate functioning of the IT controls within the finance system? This may not be an area with which the CFO is familiar and can be extraordinarily technical. The CFO will need independent advice in this regard and the use of internal audit may be appropriate.</li> </ul> </li> <li>▪ Some guidance about determining the adequacy of assessments underlying the assurance may be appropriate.</li> <li>▪ It needs to be understood that the degree of assurance that can be provided will be limited by the extent to which the relevant audit plan has been designed to provide assurance and the resources that have been provided to perform the assessments.</li> <li>▪ The guidelines might also consider whether gathering all evidence or conducting all assessment necessary to support a statement of assurance is achievable in a single year. It may be appropriate to permit a longer-term assurance program that considers the relative risks of certain types of activity and allows for coverage of all significant areas over a prescribed period.</li> <li>▪ Noting that it is appropriate to expect the CFO to obtain assurance from an external service provider (e.g. CorpTech, Shared Services Agency) it may also be appropriate to provide guidance on the form of assurance that should be provided – e.g. example form.</li> <li>▪ It may be appropriate to permit a CFO to place reliance on such a</li> </ul>

	<p>statement of assurance unless there is a clear reason to doubt it.</p> <ul style="list-style-type: none"> <li>▪ The guidelines need to recognise that good performance requires more than compliance. The provision of this assurance should, therefore, not simply be a compliance checking exercise. It should also consider the effectiveness, efficiency and appropriateness of the agency’s systems, processes and controls.</li> </ul>
13	<ul style="list-style-type: none"> <li>▪ The guidelines should also specify the role of the Audit and/or Risk Management Committee in reviewing the statement of assurance.</li> </ul>

### Question 3

*Are there any other areas which you consider an accountable officer may request assurance for the chief finance officer? If so, please provide details.*

Stakeholder	Summarised Comments
2	<ul style="list-style-type: none"> <li>▪ Confirmation from the finance officer that the identified deficiencies in the previous year/reporting period have in fact been addressed. Failure to do this may impact on departmental outputs and outcomes.</li> </ul>
8	<ul style="list-style-type: none"> <li>▪ Other content could include qualitative measures, Key Performance Indicators (KPIs), and similar performance reporting information.</li> </ul>
11	<ul style="list-style-type: none"> <li>▪ Assurance may be required in relation to abolished departments in determining what is required in the period from the last statement of assurance and the date the department is abolished. This will include identifying who is responsible when the CFO is no longer there.</li> <li>▪ Some specific consideration of the risk of fraud.</li> <li>▪ Guidance should also be considered in relation to identifying/considering how internal controls address associated risks. This would also enable more meaningful assessment of control breakdowns and the potential implications.</li> <li>▪ In addition to guidance on processes, there should be some guidance on the extent of the evidence required to make the statement of assurance, including: <ul style="list-style-type: none"> <li>○ the fact that the statement is to cover the entire period or disclose controls that were in place for only part of the period</li> <li>○ assurance that the identified controls have been assessed in terms of the appropriateness of their design (i.e appropriately designed and are implemented as intended) and that they operate effectively not just that they exist.</li> </ul> </li> </ul>
12	<ul style="list-style-type: none"> <li>▪ Yes - presumably any request for assurance should relate to the minimum responsibilities of a CFO outlined in Topic Paper 3 or another responsibility agreed between the CFO and Accountable Officer.</li> </ul>

13	<ul style="list-style-type: none"> <li>▪ As the Chief Finance Officer is only responsible for internal controls relating to financial processes and reporting, the statement of assurance should be restricted to financial matters.</li> <li>▪ The only other matters that could be considered would be strategic planning under the control of the CFO such as budget preparation and monitoring, strategic asset planning and strategic procurement planning.</li> </ul>
----	---

**Question 4**

*Please provide other comments, if any, on the issues outlined in this topic paper.*

Stakeholder	Summarised Comments
3	<ul style="list-style-type: none"> <li>▪ The proposals listed in the topic paper “provide information regarding publication of the statement of assurance” should be aligned to the requirements in the Act or Standard on publication of the assurance.</li> <li>▪ Expand the proposal that the guidelines “provide information regarding publication of the statement of assurance” to include “provide information regarding publishing results of financial controls assessment”. This would make the exact requirements very clear.</li> </ul>
7	<ul style="list-style-type: none"> <li>▪ It is not yet clear how the guidance documentation will integrate the agency’s performance management framework with the financial assurance function of the CFO. For an agency, core business is product or service delivery to achieve government outcomes. Human resource, asset and performance management can be critical and beyond the CFO’s realm of direct influence.</li> <li>▪ The internal control guidelines need to acknowledge the entire set of risk/reward trade-offs that agencies make, and acknowledge that sometimes the cost of some financial compliance checks and balances is not value for money. It may not be worth for example spending two hours of time at \$45 per hour to investigate a missing petty cash voucher.</li> <li>▪ There needs to be an appropriate risk-based approach to assurance to ensure that we achieve the right balance between conformance and performance. The financial assurance framework should facilitate, not restrict or inhibit the agency from doing its core business of providing value for money outcomes to the community.</li> </ul>
10	<ul style="list-style-type: none"> <li>▪ The current practice of countersigning the management certificate contained within the financial statements is that the Accountable Officer is also signing the annual certification. In these instances, both the Accountable Officer and CFO are made responsible for this role.</li> </ul>

11	<ul style="list-style-type: none"><li>▪ The statement of assurance given by CFOs should also be applicable or strongly recommended to statutory bodies, particularly to the larger bodies with complex or significant internal control structures.</li><li>▪ The guidance on the role of internal and external audit should clearly state that this is an internal process and external audit have no role and do not form part of the internal control structure. It could however identify that issues raised by external audit in relation to weaknesses in internal control need to be specifically identified and addressed in preparing the statement of assurance.</li></ul>
12	<ul style="list-style-type: none"><li>▪ Will need to spell out what is considered “financial management” in the guidelines. It seems to imply that it is possible to manage finances independently of operations – the two are strongly interconnected and the segregation of risks is not helpful. Financial reporting may be handled as a separate entity, but other aspects of financial management cannot be.</li></ul>