

# The Treasury

## Documents Provided to the Inquiry into the Treasury's Budget Related Information Security Systems Information Release

March 2020

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# The Treasury Budget process review

Final report

20 December 2017

Distribution	Take action	Secure action	Information	Reviewed prior to release
s9(2)(a) Director Budget and Public Investment, The Treasury	✓	✓	✓	✓
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In the performance of our internal audit we have undertaken tests of selected controls and transactions as appropriate to the circumstances of our internal audit. The concept of selective testing, which involves judgement regarding both the number of transactions to be audited and the controls to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express a view on the internal controls in operation. Occasions may arise where the nature of the controls, the lack of controls or the circumstances of the internal audit require us to undertake alternative audit procedures. The decision to test, or not to test controls is made by us solely at our discretion. Because of the inherent limitations in any system of internal control or accounting system, errors, fraud or irregularities may occur and not be detected. The nature and size of the operations may prevent optimum segregation of duties being achieved. In addition, projections of any assessments provided on internal control relating to future periods (beyond the date of the audit fieldwork) are subject to the risk that the internal controls may become inadequate due to changes in conditions, or that the level of compliance with control procedures may deteriorate or weaken.

Our internal audit fieldwork was completed in September 2017. Our findings are expressed as at that date. We have no responsibility to update this report for events or circumstances occurring after that date.

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## A Executive summary

### A1 Context

The Treasury's FY18 Internal Audit Plan includes a review of its annual Budget process.

The Budget process is included on the F18 internal audit plan because:

- ▶ It is a core function of The Treasury,
- ▶ It is a critical and flagship activity for The Treasury and the Government of the day,
- ▶ It is of fundamental significance to the operation of government; and
- ▶ It is high profile.

Ernst & Young ('EY' or 'we') has been engaged to review the Budget process as per the Letter of Understanding dated 12 September 2017.

### A2 Objectives

The objectives of the Budget process review were to:

- ▶ Increase clarity regarding key roles and responsibilities.
- ▶ Better understand the "critical path", the key decision points and assurance activities.
- ▶ Positively impact the culture of the organisation.

### A3 Approach

In carrying out the work we:

- ▶ Interviewed 16 Treasury key internal stakeholders and analysed the relevant Budget process documents to develop an understanding of the Budget context.
- ▶ Identified preliminary findings regarding the Budget process as a whole.
- ▶ Agreed with the Treasury to provide additional focus on the final weeks of the Budget process.
- ▶ Identified the key risks in the final weeks of the Budget process.
- ▶ Tested key controls as identified.
- ▶ Identified findings and developed recommendations for improvement across the Budget process, including specific recommendations with regard to its final weeks.

### A4 Scope

In scope for the review are the key Treasury processes that culminate in the preparation, production, and publication of the Budget documents that are released on or before Budget day. We necessarily took a high-level approach to this review. We did not review all processes in detail. We considered risks in the final weeks of Budget preparation because these were identified in the initial interviews and document review.

## A5 Focus area: Final weeks before Budget Day

Following the high-level review across the Treasury Budget process, we determined that the same pressures and risks we identified are present but magnified in the immediate weeks prior to Budget Day. We decided, in agreement with the Treasury on 21 September 2017, to carry out further review focusing on these final weeks. Section C provides further context and detail.

## A6 Overview

*Risk is contained through much of the critical Budget process, but the process is cumbersome. If the process were more streamlined it could deliver even more value.*

The Treasury appropriately places its annual support for the Government's Budget process at the centre of its thinking and its activities. The Treasury is well-regarded for the thinking that goes into the budget process, and the resulting good management of fiscal and economic outcomes.

The central requirements for an effective Budget process are good communication with the Minister of Finance and support for challenging conversations between the Minister of Finance and other Ministers. The Minister must be well-informed to discharge Government's fiscal and economic responsibilities, and to most effectively deliver the Government's spending objectives through the Budget. We found that it is difficult for the Treasury to effectively and convincingly communicate process deadlines to the Minister of Finance. There was some degree of acceptance across interviews of this state as an inevitability. Formality and visibility of process is an effective way to demonstrate the veracity of deadlines. Without these, it is much easier for Ministers to imagine the solution to timeline constraints as simply working harder or adding additional resources. Formally captured and tracked risks at the process level will improve persuasiveness around timelines.

Risk is relatively low through the majority of the length of the Budget process, due to a significant contribution and focus by a broad group of intelligent and motivated Treasury professionals. The process can be overly cumbersome at times, compounded by some uncertainties in accountability and the approach to governance. As a result, there is a lot of effort and input by the Treasury that does not generate all of the value it could to Government, or that does not effectively showcase all of the good thinking that goes into the process.

**As Budget Day nears, the broad input and review that is used to manage risk for most of the process is less and less well-suited to containing risks during fast-paced final Budget preparations. Budget processes, tools and technologies could be improved to provide more value early in the piece, and less risk later on.**

Our review suggests that there are inefficiencies in the Budget process, meaning that Treasury communication with the Minister delivers less value than it could. Where processes are less efficient than they could be, there is less time and resource for the Treasury to add value, such as through providing further support for Government to meet its policy objectives through the Budget.

Our review identifies risks generated over the course of the Budget process, which have increasing potential to become issues in the weeks leading up to Budget Day. As Budget Day nears, approaches that rely on broad and repeated review by a wide range of parties are less likely to perform well because these final weeks involve delivering a complicated, compressed and high-profile process. Tools and technologies to streamline the integration of comments and to maintain the integrity of document versions processes would be valuable assets in later process stages.

**There is a lot of planning carried out to deliver the Budget, but this does not mean that it is a particularly formalised process considering its complexity, repeatability and importance.**

There is a significant degree of planning and organisation involved in delivering the Budget. The job of coordination includes input from Departments, Ministries, and the Government of the day, not to

mention the analytical contribution from across the Treasury itself. This is a significant undertaking that could only be carried out with a lot of attention to planning and organisation. Many of the activities of the Budget also have a consistency and broadly similar cadence from year-to-year. There is a reliance on and comfort with relative informality due the presence of 'wise heads' who 'know how the Budget is done'. Within this generally similar cadence, many of the specific processes supporting the Budget are redevise year-to-year. All of the current knowledge and planning activity do not mean that there is currently a formalised approach to the processes that support the Budget.

## A7 Key themes

Our high-level review of the Budget process identified five key themes, which are further detailed in sections B.1 - B.5, and which further manifest in section C, re: the final weeks before Budget day.

**Theme 1 Formalisation** - There is a lot of planning, but limited documentation of the detailed processes supporting the Budget. Lessons have not been documented at the process level regarding the impact from predictable variations in circumstance, such as from changes of Government or cyclical fiscal and economic conditions.

*Can staff step seamlessly into Budget roles and add value, without reinventing the wheel?*

**Theme 2 Governance (Roles and Responsibilities)** - There is a lack of clarity and understanding of the accountabilities and responsibilities involved in the Budget process. There is similar uncertainty, and questions about distinctions between groups and meeting fora supporting delivery of the Budget.

*Are roles clear, particularly when time is short and stakes are high?*

**Theme 3 Process Design** - The processes that support the Budget utilise a lot of redrafting, take a high degree of effort, but could still provide more value from the range of input provided. The process could be designed to mitigate and better resource crunch points. The Budget process has not been reviewed to confirm that it is fit for current and future requirements.

*Is the Budget process itself an asset that helps the Budget to deliver more for less?*

**Theme 4 Human Impact** - A lack of consistent documentation and handover material, along with very compressed timelines negatively impacts staff wellbeing, and may contribute to high turnover in some years.

*Is the Treasury taking as much care with its people as it could?*

**Theme 5 Technology and Security** - Current information sharing approaches may create risks to security of information. A lack of effective collaboration and version-management tools creates quality risks for the Budget documents.

*Is the Treasury applying the right balance between labour and capital to delivery of the Budget process?*



## A8 Primary Recommendations

This review generated three primary recommendations. Each of these are of high importance due to their ability to mitigate potentially significant existing risks identified in this report.

Following receipt of our Draft Report, the Treasury provided us with additional information regarding recent and planned upgrades to its tools and technologies. This change in context resulted in a change to our Recommendation 3, as detailed in section A9 the Treasury's Management Response.

- |                         |  |
|-------------------------|--|
| <b>Recommendation 1</b> | <b>Formally document the Budget process at a detailed level. Use this documentation to improve process efficiency, effectiveness, resourcing and to mitigate the risk from staff turnover.</b>                                       |
| <b>Recommendation 2</b> | <b>Carry out a detailed RACI analysis on the documented Budget process. Assign roles and responsibilities for individuals and groups on this basis. Once assigned, use these roles to more effectively deliver Budget processes.</b> |
| <b>Recommendation 3</b> | <b>Assess current upgrades of tools and technologies supporting information sharing, document management and version control for the ability to support Budget processes.</b>  |

Sections B.1 - B.5 each provide the findings and context to support these recommendations. These sections also identify risks these recommendations would mitigate and provide some detail as to how to tailor these recommendations to address the specific findings for each theme.

## A9 The Treasury's Management Response

The appropriate Treasury Committee, Kaiurungi considered a Draft of this report on 7 December 2017. Following this meeting, the Treasury provided EY with a Management Response to our Draft report.

The Treasury's Management Response was well-aligned to the Themes and Recommendations set out in this report. Given the time required to address these Recommendations, the response proposed Actions to address these before the next Budget cycle. The Management Response provided us with additional information we had not previously received regarding recent and planned upgrades to the tools and technology supporting the Budget processes. This additional information resulted in a change to **Recommendation 3**.

The Treasury's Management Response acknowledges the need for and benefit from documentation of Budget processes as indicated in our **Recommendation 1**. The response indicates that in carrying out this recommendation, it will seek to achieve a balance in the level of documentation detail between delivering further value and the cost of upkeep. In response to Recommendation 1, Kaiurungi proposed the following Action:

### Action:

1. Complete the detailed formal documentation of the budget process by September 2018 (Responsibility: Manager, Fiscal & State Sector Management).

The Treasury's Management Response acknowledges the importance of clarifying roles and responsibilities for the management of risks and issues and for delivering additional value through the Budget process.

Upon completion of **Action 1** (process documentation), Kaiurungi propose to apply the RACI framework from the Treasury's Corporate Governance Policy to the documented Budget process to clarify roles and responsibilities, including at key handover or signoff points as indicated in our **Recommendation 2**. In response to Recommendation 1, Kaiurungi proposed the following Actions:

**Actions:**

2. Review the Terms of Reference for the Budget Governance Group, by 31 January 2018 (Responsibility: Director Budget & Public Investment).
3. Complete a detailed RACI analysis on the Budget process, utilising the formal documentation developed in Action 1, by 31 December 2018, for Kaiurungi to consider (Responsibility: Director Budget & Public Investment).

The Treasury's Management Response acknowledges the importance of fit-for-purpose tools and technology to support the Budget process. This response provided us with additional information regarding recent and planned upgrades with direct application to our **Recommendation 3**. We understand that secure file sharing has recently been addressed, while document management, information sharing and upgrades to CFIS net are progressing. Given this additional information, our Recommendation 3 has been updated to reflect the need to assess the impact of current changes, once operational, rather than to carry out a review of pre-update capability.

The Treasury has noted that an assessment would be better timed once this suite of improvements becomes a part of business-as-usual within the Treasury. In response to Recommendation 3, Kaiurungi proposed the following Action:

**Actions:**

4. Once these tools are bedded in, assess further opportunities for enhancing tools and technologies to support the budget process, by 28 September 2018 (Responsibility: Chief Information Officer).

s9(2)(a)



## B Key themes and detailed findings

This section provides further details of the five key themes identified in our high-level review of the Treasury Budget process.

### B1 Formalisation

While there is an enormous amount of planning and organisation that goes into delivering the Budget, the process has not been formalised. The Budget would be delivered with less risk if it were formally and visibly documented. This documentation would also be the foundation for ongoing process improvement. Setting out in detail how key elements of the process are carried out over the course of the Budget is valuable, even if many elements are expected and encouraged to evolve over time in response to changing circumstance. Many past changes in circumstance that would impact the Budget process will certainly occur again in the future, such as having a new Minister, or Government, the adoption of major tax or benefit packages, or tight, loose or volatile economic conditions. The Treasury could better prepare for changes in circumstance by documenting how such changes can most effectively be accommodated by changes in Budget process.

#### Summary of findings

The following formalisation sub themes were found during our investigation of the Treasury Budget process:

- B.1.1** There is limited Budget process documentation.
- B.1.2** Over time the requirements to deliver a successful Budget vary due to known changes in circumstance. These variations include fiscal and economic factors, such as a binding debt or deficit target, the inclusion of major items such as a tax package or changes in Government or Ministers. As all of these variations have occurred in the past and will occur in the future. The implications on Budget processes could be planned for.

To address these findings we recommend:

**Recommendation 1 - Formally document the Budget process at a detailed level.**

#### Findings

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
<b>B.1.1</b>  We found limited evidence of Budget process documentation.  There is a reliance on institutional knowledge and an expectation that detailed processes will be designed each year, generally within the purview of an established broad approach to	 Budget planning and review documents we were provided did not include formal documentation of the detailed processes supporting the delivery of the Budget.  It was difficult to tell if those examples of documentation we found were up to date.	 Delivery Risk - We found that Treasury finds it difficult to persuade the Minister regarding its timeline constraints. Formality and visibility of process is an effective way to demonstrate the veracity of deadlines. Without such formality, the veracity of deadlines is less clear.  Quality Risk - Where the detailed processes of the Budget change year	 A documented Budget process should be visible to stakeholders and participants.  The process should include documenting issues and risks arising from the existing process over the course of each year. At the start/finish of year, review the documented process to assess its ongoing fit for purpose and context.

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
delivering the Budget.		<p>on year without documentation, there is less ability for leadership to support quality control. It will also not be clear if issues arising in the past will be mitigated in the future.</p> <p>Risk magnification - staff turnover, high workloads and other risk-generators discussed in this report are all more serious in the absence of documented process.</p>	
<p>B.1.2</p> <p>The detailed approach to delivering the Budget has accommodated a range of different circumstances in the past.</p> <p>We did not find evidence of documentation as to how predictable variations (in economy, Government, etc.) might have been accommodated, and how they might best be accommodated in the future.</p>	<p>The inclusion of a tax package was described as significantly altering elements of the Budget process.</p> <p>The use of particular digital communication tools has impacted the Budget process.</p> <p>The change in Minister was described as changing elements of the Budget process (noting that the Treasury has seen many changes in Minister over its history).</p> <p>A binding surplus/deficit requirement was said to have created particular pressures and challenges in past Budget processes.</p>	<p>Relationship risk - The Minister of Finance will rely on the Treasury for advice as to how different circumstances might be accommodated in Budget process (even where they do not take this advice).</p> <p>Outcome risk - Where an important lesson has been learned regarding how Budget process can accommodate an important change in circumstance, if it is not well documented then it will be lost, to the detriment of good outcomes.</p>	<p>Process documentation should identify the common changes in circumstances that impact on the delivery of the Budget. Identify where possible how these variations have been managed in the past and what lessons have been learned. Document in detail the changes in process required to deliver a successful Budget under expected changes in circumstance.</p> <p>Maintain these variations with the detailed documentation of the Budget process.</p> <p>Update these findings after any year in which there is a change in circumstance likely to be repeated, which impacted the Budget process.</p>

## B2 Governance (roles and responsibilities)

Effective project and programme governance provides a structured environment for oversight through coordinated decision-making and strategy forums, structured escalation paths, clear approval delegations and fit-for purpose reporting.

At the Senior Leadership Team level, accountabilities appeared clear, however within the organisation this is less the case. We heard a lack of clarity in the minds of many regarding accountability across the Budget process. While others were more certain in their view, this clarity did not always align with others who also expressed certainty. We heard a number of different views both about clarity of individual and group accountabilities for the Budget.

### Summary of findings

The following are the key-sub themes we found with Governance (roles and responsibilities) in the Budget process:

- B.2.1** Individual roles and responsibilities are not clear and are not seen in the same way by different Budget process participants.
- B.2.2** The roles and responsibilities of different supporting groups and meeting structures are not clear to Budget process participants.

To address these findings we recommend:

**Recommendation 2 - Carry out a detailed RACI analysis on the documented Budget process. Assign roles and responsibilities for individuals and groups on this basis.**

### Findings

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
<b>B.2.1</b>  Many individuals are not clear about their own accountabilities and responsibilities in supporting the delivery of the Budget.  We found that Senior Leaders and the SLT do play an active role at different points in the process. It was not always clear to staff how to best support Senior Leadership accountabilities amidst delivery of the Budget process.	Accountability between the Budget Team Leader, Manager, Director, and Deputy Secretary was described as unclear by a range of interviewees.  The proper escalation path is not clear for those who contribute to Budget processes outside of their line of management.  There is uncertainty as to how best to support Senior Leadership Team objectives in the Budget process	Quality risk - Where accountabilities are not clear time is lost to uncertainty and less can be achieved.  Reputation risk - Clear accountability allows the right people to assign responsibility for identifying and mitigating risks early, The alternative is to enable risks to fall through the cracks. If this impetus generates mistakes in the Budget Treasury's reputation would suffer.	When assigning roles and responsibilities at a detailed level, draw on identified handoffs and boundaries in the documented Budget process (Recommendation 1).  When assigning roles and responsibilities, consider formally placing accountability in a single Deputy Secretary as an escalation path for Budget contributors during particular periods within the Budget process.  When assigning roles and responsibilities, consider making the Office of the Chief Executive responsible for the late stage delivery of the

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
			Budget documents, once the Deputy Secretary has tabled drafts with Senior Leadership. This may not be the right approach, but considering the option will help clarify how to best support Senior Leadership objectives through the Budget.
<p>B.2.2</p> <p>Many interviewees are not clear on the roles and responsibilities of the various groups supporting delivery of the Budget.</p> <p>We heard that the roles of groups like Budget Governance Group and Budget Oversight group are evolving.</p>	<p>There are a range of groups supporting the Budget. The roles between them were not fully clear to participants, nor does their operation in the Budget process always align to their Terms of Reference. Groups include:</p> <ul style="list-style-type: none"> <li>-Budget Governance Group (BGG) - to be renamed to Budget Oversight Group (BOG)</li> <li>Integrated Fiscal Strategy Group (IFSG)</li> <li>Editorial Committee</li> <li>Core Production Team Weekly Meetings</li> <li>Estimates Weekly Meetings</li> <li>Individual Team meetings</li> </ul>	<p>Quality and Reputation risk - Due to the lack of clarity, handovers and sign-offs are not as clear as they could be. This increases the risk of coordination failure which in turn increases the risks to quality and timeliness in the Budget delivery.</p>	<p>The Terms of Reference for each group supporting Budget processes should be updated based on the findings of the RACI analysis of the detailed Budget process.</p> <p>Where the role of a group is evolving, or is intentionally not fully specified or determined, it is clearer for participants if this evolution is made explicit. Ideally, any lack of clarity is supported by visible objectives and a timeline for the move toward greater clarity.</p>

## B3 Process design

A well designed process should be clearly defined, simple, flexible, repeatable, devoid of waste, and allow sufficient guidance to successfully deliver a quality output while minimising risk.

### Summary of findings

The following process design sub themes were found during our investigation of the Treasury Budget process:

- B.3.1** Drafting-intensive Budget processes take a high degree of effort, while the array of quality content produced during these processes is not fully exposed to the Minister.
- B.3.2** The Budget process could be better designed to manage known timeline compression around key deadlines.
- B.3.3** The Budget processes have not been reviewed to determine if they are still fit for purpose.

To address these findings we recommend:

**Recommendation 1 - Formally document the Budget process at a detailed level. Use *this documentation to improve process efficiency and effectiveness.***

**Recommendation 2 - Carry out a detailed RACI analysis on the documented Budget process. Assign roles and responsibilities for individuals and groups on this basis. *Once assigned, use these roles to more effectively deliver Budget processes.***

### Findings

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
<b>B.3.1</b>  Commenting on drafts appears to be a primary method to reach agreement on content.  This approach involves drafting, review of drafts by many reviewers and comment on multiple re-drafts.  High level review suggests that these processes could be streamlined.	Cross-interview theme: The Budget process includes significant use of drafting at intermediate process states, broad comment from across the organisation and redrafting chapters of core Budget documents to reach agreement.	Quality risk - If too much effort is used in redrafting, much of the final wording may be highly tested, but other value Treasury could provide will be crowded out (such as a focus on advice to improve the quality of spending to Government's objectives.  Note: a drafting-heavy approach compounds the risk from informal approaches to version control and a lack of document collaboration capability.  [See Technology and systems B5]	Instead of drafting, use decision-making fora wherever possible to agree key wording issues. Delegate authority wherever possible for a more concise draft review process.  Consider approaches to reduce redrafting, perhaps by reducing drafting mid-process where possible.
<b>B.3.1</b>  Well-developed thinking on each Budget initiative is	Vote teams provide extensive information and input through the budget process. Budget initiative	Quality risk - When information is required for a decision, critical detail	We understand approaches have been used at times to expose a broader range of Treasury staff to the Minister at Budget time to

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
highly summarised when provided to Ministers. Important content and richness may not be available to the Minister, or may not be timely available.	information provided to Ministers is necessarily highly summarised, generally without a reliable approach to provide additional detail to hand when requested by the Minister.	or context may not be available.  Relationship risk - The Minister may misunderstand the Treasury's degree of preparation.	provide greater richness and detail on Budget initiatives. We were informed that new methods are being tested. Once processes are documented, these may show more opportunity for technology-enabled approaches.
B.3.2  The Budget process becomes compressed at key milestones. Input requirements remain high, generating significant effort in short periods of time.	From Cabinet sign-off in March to mid-April document production effort is accelerated.  After document sign off in early May, there is a significant finalisation requirement for publications.	Quality risk - interviewees were generally confident that broad review is able to catch mistakes, however at compressed times for key teams, there is more risk that broad input will not be able to identify and resolve issues.  Staff risk - Workload increases significantly for some teams at key times. We heard about long hours, and periods of significant turnover.  Security risk - Adherence to security protocol is less likely to be prioritized when staff are under pressure to meet deadlines and are working long hours.	Once processes are documented consider options to streamline processes around key milestones and compressed periods of effort.  Documented Budget processes should be used to determine resourcing requirements for identified tasks and review ways to flex resourcing to fit.
B.3.3  Key features of Budget delivery have not been reviewed for fit to current and future requirements. This includes the approach to paper document production, and both current and near-future approaches to using data, sharing information and non-government funding and delivery.	Reviews of the Budget we have been provided with are focused on continuous improvement year-on-year. We have not seen a review of the Budget process and its fit to the current and near-future context and requirements.	Reputation Risk - The budget process could be seen by stakeholders as not representing a professional use of available tools and technology.  The use of paper based approaches adds risk of process failure.	Once documented, Budget processes can be periodically reviewed to determine their alignment to modern communication channels, emerging approaches to the use of data and alternative funding and delivery mechanisms.  A review of documented Budget processes should consider whether paper-based approaches are still fit for current and future needs.



## B4 Human impact

While delivering the Budget is a strategically important repeatable process we heard that there is often limited handover documentation for staff. We also understand that working in the Budget team is hard work, requiring long hours and facing tight, high-profile deadlines. These factors may contribute to years in which there has been significant turnover. This human impact of the process could be better mitigated to the benefit of staff and to achieve a reduction in risk.

The right balance should encourage transfer of institutional knowledge enabled by robust handover and have the correct level and mix of resources to increase likelihood of success, continuity and to minimise stress.

### Summary of findings

The following are the three key-sub themes regarding the Human impact of the Budget process:

- B.4.1** There is a reliance on broader institutional knowledge with limited handover for some staff directly involved in the Budget process.
- B.4.2** Capability mix and experience can be stretched at particular points in the Budget process.

To address these findings we recommend:

**Recommendation 1 - Formally document the Budget process at a detailed level. Use this documentation to improve resourcing and mitigate the risk from turnover.**

### Findings

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
<b>B.4.1</b>  There has been significant recent turnover in Budget team staff and reason to believe this will recur at some points over time.  This turnover was mentioned as stemming from the associated team workload, the fact that former Budget team members are in some demand, and from the Treasury's approach to rotation.	The Budget team has recently had close to full turnover. This has also occurred in some past years.  We did not review detailed turnover figures for the Treasury.	Quality risk - Particularly in a relatively undocumented process with low handover, there is a risk that ongoing turnover causes a meaningful impact on the quality of a future budget.  Reputation risk - Because the Budget is so high profile for the Treasury, errors could have a disproportionate reputational impact.  Relationship risk - There is a risk of less effective support for the Minister.	Documentation will provide team training resources outside of individual handover notes. Handover notes can be reserved for specific context information.  Documentation can better enable peak-time resource allocation from across the Treasury to support Budget delivery.
<b>B.4.2</b>  The Budget process includes periods of long hours, tight deadlines and hard work for some teams.	Interviews consistently commented on the impact of particularly busy periods.	Quality and Security risk- At particularly busy times in any process, quality and security can become less of a priority.	Documented processes will help to determine the staff requirements at peak times.

## B5 Technology and security

Technology should be a process enabler that underpins and supports effective delivery of business outcomes. Technology should remove roadblocks, enable collaboration, and reduce risk. Where such capabilities are available and reasonably priced relative to important agency objectives, they should be implemented where feasible. For the Treasury, document collaboration and version control are mission-critical capabilities to deliver documents that require timely, broad input across the enterprise. The Treasury is currently improving a number of its supporting tools and technologies, providing the opportunity for these to better support the Budget process.

### Summary of findings

The following are key-sub themes we found with the Technology and Security supporting the Budget process:

**B.5.1** Information sharing approaches have created security of information risks.

**B.5.2** Collaboration and version-management tools were not in place to meet requirements.

To address these findings we recommend:

**Recommendation 3 - Assess current upgrades of tools and technologies supporting information sharing, document management and version control for the ability to support Budget processes.**

### Findings

Finding	Example(s)	Impact	Detail to support adoption of Recommendations
<b>B.5.1</b>  Intense time compression alongside older and slower methods of information sharing (USB keys) created the risk that security controls are bypassed.	A number of near-misses or minor incidents have been raised.	Reputation risk - The ability to maintain information security is part of the license to operate on sensitive topics for the Treasury.  Economic risk - disclosure of market-moving information could have unfair and unpredictable consequences.	The Treasury have informed us that secure file share capability was recently made available.  Once this change has bedded in, assess whether it effectively supports Budget processes.
<b>B.5.2</b>  We did not see evidence of effective document collaboration technology despite the broad input provided to documents under time pressure.  Effective version control systems were notably absent.	Interviews discussed document management systems (iManage) and CFISnet, but did not identify systems or technologies to assist collaboration and version control.	Reputation risk - The Treasury relies on integrating broadly collected quality assurance input to deliver quality Budget documents. If this process fails, it will generate mistakes or poor information to important stakeholders.  Risks across this report are magnified if systems do not support process requirements.	The Treasury have informed us that it is in the process of document management system upgrade.  Once this change has bedded in, assess whether it effectively supports Budget processes.

## C Focus Area: Final weeks before Budget day

### Approach and rationale

Following a high-level review looking across the Treasury Budget process, our preliminary conclusion was that pressures and risks were magnified in the weeks immediately preceding Budget Day.

As part of our further investigation we identified key teams involved at this stage, held additional interviews with them, and reviewed their work plans. This included the Budget Coordination Team, the Website and Publications team, and the wider teams contributing to the Budget. While there are arguments to consider a range of time periods, we began our focus on the last three weeks, while remaining conscious that risks begin to escalate as final Budget decisions are taken six weeks before Budget Day, and are particularly heightened in the week prior to the Budget. We set out a high-level diagram of the process in these last three weeks (refer to Appendix A).

As Budget Day approaches the risks arising earlier in the process become less able to be mitigated by the broad inclusion of many smart and capable professionals. Time compression also becomes a factor as staff work long hours and tight deadlines. This combination of factors generates a risk of security breaches, conflicting information across Budget day materials or mistaken information provided in the Budget documents.

Earlier in the process these risks are building, due to the issues identified in our report, e.g. accountability is not as clear as it could be and formality of the process is not developed, hence visibility, communicability and predictability are less than they could be. This magnification of risk is increasingly apparent beginning in the last six weeks, when there is less room for error and the Budget process becomes increasingly focused on delivery. It is in the final few weeks as Budget Day nears that risks arising are increasingly likely to become issues. We agreed our intention to focus on this time period with the Treasury on 21 September 2017.



In the final weeks of the Budget process, particularly as Budget Day approaches, risks are most acute. At the conclusion of this period the Budget documentation is made visible to New Zealanders and to overseas rating agencies and investors. Quality is demonstrated through the timeliness and accuracy of the Budget documents, digital content, the lock-up material and other media presentations and material.

We acknowledge that these risks in the final delivery phase are present in other jurisdictions, in fact in many cases they appear to be present to an even greater degree. We heard that it is not uncommon practice in some countries for changes to be made right up to the hours before budget delivery. Our brief review quickly uncovered high-profile issues arising in these jurisdictions. The New Zealand Treasury and Governments will have to determine their own tolerance to these high-profile reputational risks. We have given these risks close attention as we recognize that New Zealand is a small and distant economy, and that New Zealand may have benefitted from a reputation for good fiscal and economic management, which is preserved in part by avoiding high profile errors.

The lack of clarity in accountabilities and responsibilities continue in the final weeks as Budget day nears, but the impact of a failure in handover and coordination are greater if the accountabilities are

not clear. Instead of drafting errors to be caught in the next draft version, or an additional meeting on a previously resolved topic, issues arising in the final weeks can affect the ability to deliver expected copies of Budget material, or digital media content or material for the press.

The three Primary Recommendations of this report; to document and improve processes, to clarify accountabilities and to employ appropriate supporting tools and technologies are particularly applicable to these final weeks of the Budget process. In addition, to address our findings with regard to the final weeks of the Budget, the table below includes nine additional, specific recommendations to address our findings and the risks they represent.

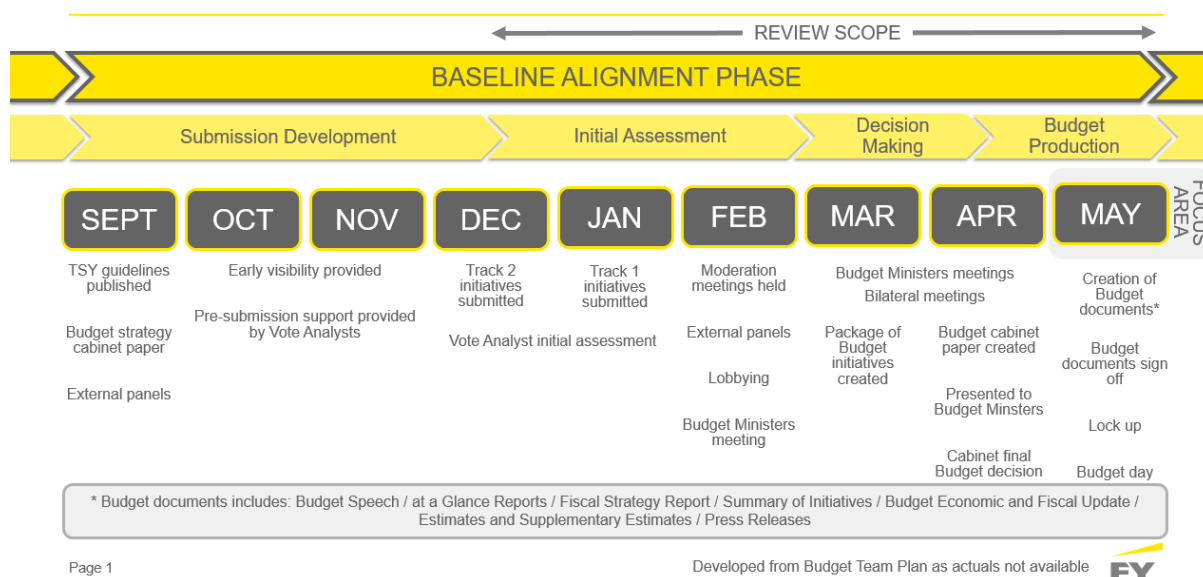
## Findings and Specific Recommendations

Finding	Example(s)	Impact	Recommendation
<p>C.1</p> <p>We found evidence of late changes that could have been resolved earlier.</p> <p>Late changes do not appear to have a streamlined process for resolution.</p>	<p>We identified late changes to the BEFU chapters and press releases.</p>	<p>Quality and Reputational risk - Version control issues could result in inconsistent or incorrect information in Budget documents.</p> <p>Human impact - As Budget day nears, any additional challenges add to a time that is already stressful.</p>	<p>C.1a.</p> <p>Formalise information flows and changes such as through a sub-editor role. Devise one point to receive changes and as few as possible to provide them.</p> <p>C.1b.</p> <p>Avoid changes in the final week beyond the Minister's weekend changes.</p>
<p>C.2</p> <p>Final sign-off approaches are unclear. Additional changes are made after what are considered to be signed-off documents.</p>	<p>We found examples of unclear sign-off processes and content changes.</p> <p>Reviewed schedules had multiple "content owners" with no clear accountable role.</p>	<p>Reputation and Security risks - As Budget Day nears, tight deadlines combined with the transfer of data and printed material externally mean that distraction could generate more high-profile errors.</p>	<p>C.2a.</p> <p>Use RACI analysis (Recommendation 2) to formalise sign-off accountabilities and process for document finalization and publication.</p> <p>C.2b.</p> <p>Further centralise the structuring/development of timelines/timetables.</p>
<p>C.3</p> <p>Documents are not always handed over as planned.</p>	<p>We identified examples, including: Press Releases provided late to the Budget team.</p> <p>Final documents are provided late to Web team.</p>	<p>Quality risk - Increased risk of compromise on final deliverables including publication versions and final QA's</p>	<p>C.3a.</p> <p>Better communicate impacts of downstream delays.</p> <p>C.3b.</p> <p>Include these late process issues when considering having the Office of the</p>

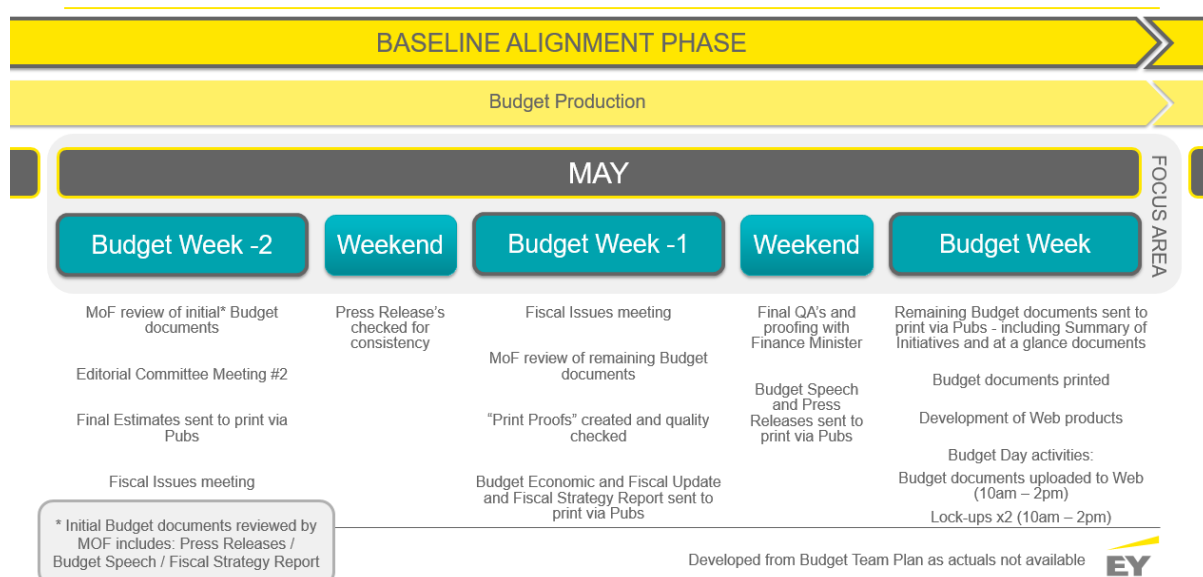
Finding	Example(s)	Impact	Recommendation
	Changes being made after documents provided to Publication team.		<p>Chief Executive manage late stages of the process.</p> <p>C.3c.</p> <p>Track actual dates of handovers compared to planned dates. Document risks and issues. Modify the process as required.</p> <p>C.3d.</p> <p>Limit the group of people involved in the last three weeks to only those that are required.</p>
<p>C.4</p> <p>There are very short turnaround timeframes.</p>	Budget production teams working all hours, nights and the weekend before Budget week.	Quality risk and human impact	<p>C.4a.</p> <p>Use a documented Budget process (Recommendation 1) to evaluate the tasks required. Determine the resource required and provide approaches to resources that can flex in during the busiest times.</p>

## Appendix A - High level Budget process flows

### Treasury Budget: Process High Level View



### Treasury Budget: Focus Area High Level View



## Appendix B – Key documents

Documentation
Budget 2017 Process & Strategy
Budget 2017 Initiatives Process - Guidance for agencies preparing Budget initiatives
Budget 2017 Timetable
Budget Oversight Group
Editorial Committee Process for BEFU 2017
Risk Committee - Terms of Reference
Budget Team Guide
Draft report Budget 2017
Implementation tracking spreadsheet
Core Budget Production Meeting invite
FSR and BPS process notes
FSR 2014 Review
2017 Budget Economic and Fiscal Update Requirements
Timetable Budget 2017 - NH
Budget 2015 Review A3 FINAL
DRAFT Budget 2016 Review A3
Production - Allocation of Web Publish to Channels URLs
Estimates - Submissions tracking
Budget 2017 Production Timetable
A3 on Budget Production v2
Budget Team Planning Afternoon read-out
7 September Budget Governance Group Agenda
Dashboard Report for Budget Governance Group 2017
AGENDA and PAPERS - Fiscal Issues - Tuesday 9 May 2017

## Appendix D - Stakeholder interviews

Interviewee	Role	Date
s9(2)(a)	Fiscal & State Sector Management	13/09/17
	Team Leader, Fiscal and State Sector Management	15/09/17 & 05/10/17
	Web and Publishing Team Leader, CASS	15/09/17
	Earthquake Recovery Strategy, Growth Directorate Ex-Team Leader, Fiscal and State Sector Management	15/09/17
	Macroeconomic & Fiscal Policy	18/09/17
	Graduate Analyst, Housing	18/09/17
	Deputy Secretary of Budget and Public Investment Directorate	19/09/17
	Fiscal Reporting, Office of the Government Accountant	20/09/17
	Director, Budget and Public Investment,	26/09/17
	Modelling & Research, Economic System	26/09/17
	Director, Economic System	28/09/17
	Principal Advisor - Web Specialist, CASS and Publication Designer, CASS and Web Editor, CASS	25/09/17
	Budget Support Specialist, Financial Performance and SSM	27/09/17
	Secretary of the Treasury, and Chief of Staff/Manager Engagement	27/09/17
	Analyst, Budget Coordination	28/09/17



## Appendix E – Background, objectives, scope and approach from LoU

### Background

The Treasury's approved FY18 Internal Audit Plan included a review of The Treasury's process to support the Government's annual Budget process ("the Budget process").

The Budget process was identified as an area for review because it is a core function of The Treasury, and one that is a critical and flagship process for The Treasury, because of its fundamental significance to the operation of the Government, and its high profile each year.

The Budget process allows the Government to set its fiscal objectives, maintain effective fiscal control, allocate the available resources consistent with the Government's strategic objectives, fulfil the legislative requirements for the Budget and seek authority from Parliament for the spending.

The Budget and Public Investment directorate is accountable for coordinating and administering the Budget process for The Treasury. The directorate risk register has identified key risks in the Budget process where the current risk level is higher than the target risk level. In other words, where further improvements or treatments need to be put in place to reduce the risk levels.

The review was planned as the first review of FY18 to allow any opportunities for improvement to be considered and implemented in time for Budget 2018.

### Objective of scope

The objectives of the review were to:

- ▶ Increase the clarity of the roles and responsibilities across Treasury for the preparation and production of the Budget, including the role and responsibilities of the Budget Governance Group which oversees the coordination of the Budget process.
- ▶ Better understand the "critical path", the key decision points and assurance activities for the preparation and production of the Budget.
- ▶ Positively impact the culture of the organisation by increasing organisational awareness of Budget risk management and assurance processes.

The focus of the review was interpreted to focus on scope of the Budget that is in remit of The Treasury's core legal obligations, and accountabilities in supporting the Budget process, while also taking into account processes within The Treasury that are identified in the initial scoping phase as potentially creating risk to successful Budget outcomes. This includes the overall liaison and coordination with other parts of The Treasury, and, if identified as a focus area, other government agencies that contribute to the Budget process.

The review focused on key processes that culminate in the preparation, production, and publication of the Budget documents that are released on or before Budget day, including the Budget Economic and Fiscal Update. The review will not review all processes in detail, instead focusing on key areas where particular risks are identified in the initial interviews and document review. The review will note any evidence obtained regarding the Treasury's preparedness to respond to any changes to the Budget process such as post a general election.

Key risk areas for the Budget process include the quality, accuracy, timeliness, and confidentiality of the information, the coordination and dependencies on the various parts of The Treasury, other government agencies, and Ministers' offices, the clarity of roles and responsibilities of governance groups, line managers, and staff, and the quality of oversight and sign-off processes.

These and other identified risk areas informed the selection of particular aspects of the Budget process for further examination as focus areas.

The following were identified as three possible focus areas identified for further examination that cover the Baseline Alignment phase of the Budget process. These will be looked into and confirmed, as part of the planning stage of the review.

1. Processes that result in the preparation of the package of Budget initiatives - processes supporting the advice to Ministers on initiatives submitted by agencies to form the final Ministerial selection of the Budget package.
2. Processes that result in the preparation, production and publication of the Summary of Initiatives - the transfer of the package of initiatives as noted in 1 above into Budget documents, specifically the Summary of Initiatives and Ministerial press releases.
3. Processes that result in the preparation, production and publication of the Budget Economic & Fiscal Update (BEFU).

## Out of scope

This review did not include:

- ▶ The Strategic, Parliamentary and Implementation phases of the Budget process.
- ▶ An in-depth review across the processes supporting production of the Budget.
- ▶ Review of the content of the budget information including the economic and fiscal advice provided to Ministers and agencies.
- ▶ Ministerial office processes for handling press releases.
- ▶ Technical assessment of systems.
- ▶ Anything else not specified in section 3.2 and above.

## Our approach

Our approach to the review is outlined below:

- ▶ Meet with key Treasury key stakeholders to understand the strategic and operational context for the Budget process.
- ▶ Understand the in-scope focus areas of the Budget process through review of the process and other documentation and interviews with the process owner and key staff involved in the Budget process.
- ▶ Identify the key risks in the in-scope focus areas of the Budget process.
- ▶ Identify the management controls and assurance activities in place to manage these risks.
- ▶ Assess the design effectiveness of the controls and assurance activities over key risks.
- ▶ Identify findings, highlight any process or control gaps and opportunities for improvement.
- ▶ Make recommendations for improvement that are fit for purpose, pragmatic, in line with The Treasury's identified risk appetite, and that will allow for ease of implementation in Budget 2018 process.

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