


# POLICY

	Policy:	<b>Internal Controls</b>		
	Department:	Corporate Services		
	Division:	Financial Services	By-Law No.:	N/A
	Administered By:	Treasurer	Approval Date:	Dec 11, 2023
	Replaces:	Internal Controls (February 29, 2016)		
	Attachment(s):	Appendix A: Canadian Professional Engagement Manual – Principles & Points of Focus		

## 1. POLICY STATEMENT

- 1.1. The Corporation of the Town of Amherstburg is committed to ensuring that the necessary internal controls and procedures are employed to ensure compliance with all applicable laws and regulations.

## 2. PURPOSE

- 2.1. The essential elements of an effective internal control structure include the environment, accounting systems, and control policies and procedures. Through this policy, the Town's internal controls shall be defined, managed, measurable, repeatable, and ongoing through measures that are preventive in nature, detectable, automated, and manual.
- 2.2. This policy establishes internal controls as a key component in the strategic process designed to identify potential events that may affect the Town.
- 2.3. This policy shall address how risks are managed acceptable ranges, in order to provide reasonable assurance regarding the achievement of the Town's objectives in the following categories:
  - 2.3.1. Effectiveness and efficiency of operations;
  - 2.3.2. Reliability of financial reporting; AND,
  - 2.3.3. Compliance with applicable laws and regulations.

## 3. SCOPE

- 3.1. This policy applies to all activities that are under taken by Administration in regards to the use of assets, whether those assets are financial or non-financial in nature.
- 3.2. This policy shall be reviewed every five (5) years from the date it becomes effective, and/or sooner at the discretion of the CAO or designate.

## 4. DEFINITIONS

- 4.1. **Internal Controls** are a process by which the Town attempts to prevent or minimize the likelihood of accounting-related errors, irregularities, and illegal acts. Internal controls help safeguard funds, provide efficient and effective management of assets, and permit accurate financial accounting. Internal controls cannot eliminate all errors and irregularities, but they can alert Council to potential problems.

Common definitions, acronyms, and terms are available in the Glossary located on the Town's Policies webpage.

## 5. INTERPRETATIONS

Any reference in this policy to any statute or any section of a statute shall, unless expressly stated, be deemed to be reference to the statute as amended, restated or re-enacted from time to time. Any references to a by-law or Town policy shall be deemed to be a reference to the most recent passed policy or by-law and any replacements thereto.

## 6. GENERAL CONDITIONS

6.1. The Town's process of internal controls as laid out in Appendix A and will be utilized to evaluate the design (matching controls to risks) and the implementation (controls in use) of the following elements of internal control:

- 6.1.1. Control Environment
- 6.1.2. Risk Assessment
- 6.1.3. Financial Reporting
- 6.1.4. Fraud Prevention
- 6.1.5. Monitoring

## 7. RESPONSIBILITIES

7.1. **Council** has the authority and responsibility to:

- 7.1.1. Approve the Internal Controls Policy.

7.2. The **Chief Administrative Office (CAO)** has the authority and responsibility to:

- 7.2.1. Ensure that all actions undertaken by employees are consistent with this policy.
- 7.2.2. Support the Town's control and risk management activities.

7.3. The **Treasurer** has the authority and responsibility to:

- 7.3.1. Provide guidance on the design and implementation of internal controls.
- 7.3.2. Develop and implement actions plans for improvement of internal controls as deemed necessary.
- 7.3.3. Establish, execute, and monitor the proficiency of internal controls and the potential exposure to risk.
- 7.3.4. Validate adequacy and effectiveness of controls, while providing recommendations to the CAO and Council.

7.3.5. In the absence of the Treasurer, the Deputy Treasurer shall assume the roles and responsibilities of the Treasurer.

7.4. **Staff** have the responsibility to:

7.4.1. Ensure their understanding and compliance with the policy and seek clarification where needed to follow the policy expectations.

**APPENDIX A – CANADIAN PROFESSIONAL ENGAGEMENT MANUAL – PRINCIPLES & POINTS OF FOCUS**

1. This checklist is based upon the 2013 edition of the Canadian Professional Engagement Manual – Entity Level Control Check List.
2. **Note that this is the control manual used by audit firms when conducting financial statement audits.**

Entity: \_\_\_\_\_

Period Ended: \_\_\_\_\_

<b>Control Environment</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>1. Risk: No emphasis is placed on need for integrity and ethical values</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Management continually demonstrates, through words and actions, a commitment to high ethical standards.</li> <li><input type="checkbox"/> Management removes or reduces incentives or temptations that might cause personnel to engage in dishonest or unethical acts.</li> <li><input type="checkbox"/> A code of conduct or equivalent exists that sets out expected standards of ethical and moral behaviour.</li> <li><input type="checkbox"/> Employees clearly understand what behaviour is acceptable and unacceptable and know what to do when they encounter improper behaviour.</li> <li><input type="checkbox"/> Employees are always disciplined for improper behaviour.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

Control Environment	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>2. Risk: Incompetent employees may be hired or retained</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Company personnel have the competence and training necessary for their assigned duties.</li> <li><input type="checkbox"/> Management specifies the requisite knowledge and skills required for employee positions.</li> <li><input type="checkbox"/> Job descriptions exist and are effectively used.</li> <li><input type="checkbox"/> Management provides personnel with access to training programs on relevant topics.</li> <li><input type="checkbox"/> Adequate staffing levels are maintained to effectively perform required tasks.</li> <li><input type="checkbox"/> Initial and ongoing matching of staff skills to their job descriptions.</li> <li><input type="checkbox"/> Staff are compensated and rewarded for good performance.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

Control Environment	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>3. Risk: Ineffective management oversight provided by those charged with governance (where applicable)</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> A majority of board members are independent of management.</li> <li><input type="checkbox"/> There is appropriate experience, stature and financial expertise on the board (and the audit committee) to provide the necessary oversight.</li> <li><input type="checkbox"/> Significant issues and other information (financial results, etc.) are communicated to the board in a timely manner.</li> <li><input type="checkbox"/> The board provides effective oversight over management’s activities. This includes raising difficult questions and pursuing answers.</li> <li><input type="checkbox"/> The board of directors meets on a regular basis and minutes of meetings are circulated on a timely basis.</li> <li><input type="checkbox"/> Where an audit committee exists, they have a charter outlining duties and responsibilities.</li> <li><input type="checkbox"/> Discussions take place about the risk of management override and the effectiveness of internal controls over financial reporting.</li> <li><input type="checkbox"/> Deficiencies identified in internal control are addressed on a timely basis.</li> <li><input type="checkbox"/> The scope of activities of the external auditor(s) is reviewed at least annually.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

Control Environment	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>4. Risk: Management has a poor attitude toward internal controls and/or managing business risks.</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Management demonstrates positive attitudes and actions toward:</li> <li><input type="checkbox"/> The establishment and maintenance of sound internal control over financial reporting (including management override and other fraud),</li> <li><input type="checkbox"/> Appropriate selection/application of accounting policies,</li> <li><input type="checkbox"/> Information processing controls, and</li> <li><input type="checkbox"/> The treatment of accounting personnel.</li> <li><input type="checkbox"/> Management emphasizes appropriate behaviour to operating personnel.</li> <li><input type="checkbox"/> Management has established procedures to prevent unauthorized access to, or destruction of assets, documents and records</li> <li><input type="checkbox"/> Management analyzes business risks and takes appropriate action.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

Control Environment	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>5. Risk: Ineffective/inappropriate organizational structure for planning, controlling and achieving objectives</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> There is an appropriate organizational structure to facilitate achievement of entity objectives, operating functions and regulatory requirements.</li> <li><input type="checkbox"/> Management clearly understands its responsibility and authority for business activities and possesses the requisite experience and levels of knowledge to properly execute its positions.</li> <li><input type="checkbox"/> The entity structure facilitates the flow of reliable and timely information to the appropriate people for planning and controlling activities.</li> <li><input type="checkbox"/> Incompatible duties are segregated to the extent possible.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				



Control Environment	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>6. Risk: Unclear lines of accountability/reporting leading to poor decision-making and possible errors in the financial statements</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> There are policies and procedures for authorization and approval of transactions.</li> <li><input type="checkbox"/> Appropriate lines of reporting exist, appropriate to the entity's size and nature of activities.</li> <li><input type="checkbox"/> There is a process for assigning ownership of information and who is authorized to initiate or change transactions.</li> <li><input type="checkbox"/> Job descriptions include control-related responsibilities.</li> <li><input type="checkbox"/> The board of directors and/or audit committee considers how management identifies, monitors and controls business/financial risks affecting the entity</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

<b>Control Environment</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>7. Risk: No policies/procedures exist to ensure effective HR management.</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Management establishes/enforces standards for hiring the most qualified individuals, with emphasis on education, prior work experience and evidence of integrity and ethical behaviour.</li> <li><input type="checkbox"/> Recruiting practices (particularly for employees with access to assets susceptible to misappropriation) include in-depth employment interviews, background checks and presentations on entity's culture, expected behaviours and operating style.</li> <li><input type="checkbox"/> Job performance is periodically evaluated &amp; reviewed with each employee and appropriate action is taken.</li> <li><input type="checkbox"/> Training policies address prospective roles and responsibilities and expected levels of performance and evolving needs.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

<b>Risk Assessment</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>1. Risk: No policies/procedures exist to ensure effective HR management.</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Management has established and communicates the company's mission, strategy and objectives to employees.</li> </ul>				

<ul style="list-style-type: none"> <li>□ Risks are regularly identified/assessed and updated as part of the business planning process.</li> <li>□ Management identifies/assesses: <ul style="list-style-type: none"> <li>• Business risks (that prevent achievement of objectives), business process risks and fraud risk factors, including management override.</li> <li>• New/emerging risk factors such as new operations, acquisitions/divestitures, changes in IT and control systems, new financial reporting requirements and changes in key personnel.</li> <li>• Financial reporting risks that result from operations and compliance with laws and regulations.</li> </ul> </li> <li>□ Management develops a business plan/budget which is compared to actual results on a regular basis, variances explained and appropriate action taken.</li> <li>□ Changes in risks are identified in a timely manner.</li> <li>□ Management develops plans to mitigate significant identified risks.</li> <li>□ Other (explain)</li> </ul>				
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Financial Reporting	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>1. Risk: Transactions, events and conditions that are significant to the financial statements may not be captured or recorded</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Management has a good attitude regarding the disclosure of events and conditions that could be significant to the financial statements.</li> <li><input type="checkbox"/> Staff is expected to communicate bad news to management on a timely basis.</li> <li><input type="checkbox"/> Financial staff regularly reviews legal invoices, minutes and other similar types of documents for unrecorded events and conditions.</li> <li><input type="checkbox"/> Management has implemented procedures for identifying certain events and conditions (amortization, recoverable amounts, FMVs, etc.) that could be significant to the financial statements.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

Financial Reporting	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>2. Risk: Poor oversight/control over financial reporting, journal entries and preparation of significant estimates/disclosures that could result in material misstatements in the financial statements.</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li>□ Management employs competent personnel or hires appropriate specialist to prepare the financial reports (including estimates and accruals).</li> <li>□ Accounting applications used for financial reporting utilize the standard control features found in most commercial software packages.</li> <li>□ Spreadsheets used in F/S preparation are password- protected, kept in a central location, backed up and regularly checked for logic and calculation errors.</li> <li>□ Procedures are in place to ensure that all transactions are recorded in accordance with GAAP.</li> <li>□ All subsidiary ledgers are reconciled to the general ledger. These reconciliations are signed and dated by the preparer/reviewer and supporting documentation attached.</li> <li>□ All account balances are reconciled prior to closing the books, including confirming that balances agree with related parties (including reconciling subsidiary balances to GL balances).</li> <li>□ A procedure exists that details how significant estimates and accruals are prepared. This would include calculations, assumptions, reliability of underlying information, use of specialists (if any),</li> </ul>				

<p>management review and consistency in application</p> <ul style="list-style-type: none"> <li>□ Period-end close procedures include definitions of account classifications, assignment of responsibilities and due dates.</li> <li>□ With regard to journal entries: <ul style="list-style-type: none"> <li>• A checklist exists of standard closing entries,</li> <li>• Journal entry input is restricted to authorized personnel, and</li> <li>• Manual entries are adequately supported and approved by management.</li> </ul> </li> <li>□ Management review and initials: <ul style="list-style-type: none"> <li>• Calculations of estimates and accruals,</li> <li>• Reports of all journal entries posted, and</li> <li>• The financial reports produced, and inquires into variances and unusual amounts.</li> </ul> </li> <li>□ Access/authorization controls are in place to maintain the integrity of the chart of accounts.</li> <li>□ Other (explain).</li> </ul>				
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<b>Financial Reporting</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>3. Risk: Significant matters relating to financial reporting may not be communicated to the board of directors or external parties such as bankers or regulators.</b>				
Identify controls (if any) that apply such as: <ul style="list-style-type: none"> <li><input type="checkbox"/> Management prepares a monthly financial reporting package (comparing actual results to budget) for review by those charged with governance.</li> <li><input type="checkbox"/> Regular financial reports are prepared for key stakeholders such as financial institutions, investors, funders and regulators.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				
<b>Fraud Prevention</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>1. Risk: Management has not considered or assessed the risks of fraud occurring (including management override)</b>				
Identify controls (if any) that apply such as: <ul style="list-style-type: none"> <li><input type="checkbox"/> A positive workplace environment exists which minimizes employees' sense of feeling abused, threatened, or ignored.</li> <li><input type="checkbox"/> Management reacts to and deals with acts of fraud, or suspected fraud, in a manner that sends a strong message to others that fraud will not be tolerated or quietly ignored.</li> <li><input type="checkbox"/> Management has a formal process for identifying and documenting fraud risk which:</li> </ul>				

<ul style="list-style-type: none"> <li>• Explicitly considers potential fraud schemes and scenarios,</li> <li>• Addresses fraudulent financial reporting and misappropriation of assets by senior management, and</li> <li>• Assesses the likelihood and the impact (significance) of fraud. <input type="checkbox"/> Those charged with governance regularly consider the potential for management override of controls.</li> <li><input type="checkbox"/> Management has a policy of informing the auditor on a timely basis about actual, suspected or alleged fraud affecting the entity.</li> <li><input type="checkbox"/> Where appropriate, a whistleblower program is in place where reports are communicated directly to the audit committee.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				
<b>Monitoring</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>1. Risk: No procedures exist to monitor whether internal controls are operating as intended or to correct identified control deficiencies on a timely basis.</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Ongoing monitoring activities (such as exception and IT reports, etc.) are in place to address the operation of significant internal controls.</li> <li><input type="checkbox"/> Procedures are in place to monitor when controls are overridden and to determine if appropriate.</li> </ul>				



<input type="checkbox"/> Periodic evaluations of controls are conducted on key control systems by skilled personnel. <input type="checkbox"/> Management takes appropriate action on: <ul style="list-style-type: none"> <li>• Exceptions to policies/procedures,</li> <li>• Correcting deficiencies in internal control (including those identified by the auditor), and</li> <li>• Complaints of improper financial matters by external parties.</li> </ul> <input type="checkbox"/> Other (explain).				
<b>General IT Controls</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>1. Risk: Possible destruction of data, improper changes, unauthorized or non-existent transactions, or inaccurate recording of transactions.</b>				
Identify controls (if any) that apply such as: <input type="checkbox"/> A job description exists for the IT manager and support staff (or person(s) assigned with IT responsibilities). <input type="checkbox"/> Where a part-time IT support person is employed (agency or individual), a signed engagement letter is obtained, setting out roles and responsibilities. <input type="checkbox"/> The data access and span of control exercised by IT staff is limited, where				

<p>possible, through access cards, passwords and segregation of duties.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Contracts are signed with qualified third-party service providers that address the expectations, risks, security controls and procedures/controls for information processing (e.g., payroll).</li> <li><input type="checkbox"/> Job performance of IT staff is periodically evaluated, reviewed with the employee and appropriate action taken.</li> <li><input type="checkbox"/> Training policies address prospective roles and responsibilities and expected levels of performance.</li> <li><input type="checkbox"/> Management prepares a yearly IT plan/budget that sets out expectations and monetary constraints.</li> <li><input type="checkbox"/> Management has developed IT performance indicators and data is regularly collected and reported regarding achievement of these benchmarks.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				
<b>General IT Controls</b>	<b>Describe the evidence obtained and reviewed to support control design</b>	<b>What inquiries/observations made to assess control implementation?</b>	<b>Has risk been mitigated?</b>	<b>Initial W/P ref.</b>
<b>2. No alignment exists between business objectives, risks and IT plans.</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Management has prepared a plan (detailed budget) for IT that aligns business objectives with IT strategies.</li> <li><input type="checkbox"/> Management seeks input for the IT plan (needs and emerging risks) from others within entity.</li> </ul>				

<input type="checkbox"/> The IT group monitors its progress against the plan and takes appropriate action. <input type="checkbox"/> Other (explain).				
General IT Controls	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>3. Reliance is placed on systems/programs that are inaccurately processing data or processing inaccurate data</b>				
Identify controls (if any) that apply such as: <input type="checkbox"/> Entity uses mainstream accounting and other software packages with no modification. <input type="checkbox"/> Access to applications is restricted by passwords, etc. to authorized personnel. <input type="checkbox"/> Staff that uses or enters data into software applications has been suitably trained. <input type="checkbox"/> Only authorized software is permitted for use by employees. <input type="checkbox"/> Custom software is subject to an appropriate level of testing before being implemented. <input type="checkbox"/> Program changes are subject to formal change management procedures. <input type="checkbox"/> Other (explain).				

General IT Controls	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initial W/P ref.
<b>4. Risk: Possible destruction of data, improper changes, unauthorized or non-existent transactions, or inaccurate recording of transactions</b>				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> System infrastructure (network operating systems, servers, firewalls, routers, switches, etc.) is properly configured to prevent unauthorized access.</li> <li><input type="checkbox"/> Management protects data in storage and during transmission against unauthorized access or modification.</li> <li><input type="checkbox"/> Data files and critical applications are regularly backed up and stored in offsite locations.</li> <li><input type="checkbox"/> Access to IT facilities, equipment and applications (including remote access) is restricted to authorized personnel.</li> <li><input type="checkbox"/> Passwords are changed on a regular basis.</li> <li><input type="checkbox"/> Policies exist to ensure departing employees are denied access to software programs and databases.</li> <li><input type="checkbox"/> Procedures exist to protect against computer viruses.</li> <li><input type="checkbox"/> Periodic testing is performed to confirm that the software and network infrastructure is secure.</li> <li><input type="checkbox"/> Other (explain).</li> </ul>				

Overall conclusions (affects risk assessment at F/S level)	Yes/No	If the overall conclusion is “Yes”, consider whether work performed also provides audit evidence about the operating effectiveness of the controls identified (i.e. a test of controls). If “no”, explain the impact on the overall responses (Form 605) and further audit procedures.
a) Management with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour.		
b) Do the strengths in the control environment (and the other elements of control addressed on this form) collectively provide an appropriate foundation for the other components of internal control? (i.e. other components of internal control are no undetermined by control environment weaknesses).		

**Prepared by:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Reviewed by:** \_\_\_\_\_ **Date:** \_\_\_\_\_