

POLICY

	Policy:	INTERNAL CONTROLS		
	Department:	Corporate Services		
	Division:	Finance	By-Law No.:	2016-28
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INDEX

1. POLICY STATEMENT	PAGE 1
2. PURPOSE	PAGE 1 to PAGE 2
3. SCOPE	PAGE 2
4. DEFINITIONS	PAGE 2
5. INTERPRETATIONS	PAGE 3
6. GENERAL CONDITIONS	PAGE 3
7. RESPONSIBILITIES AND AUTHORITIES	PAGE 3
8. PROCEDURES	PAGE 4

APPENDIX A – CANADIAN PROFESSIONAL ENGAGEMENT MANUAL- PRINCIPLES AND 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.
- 1.2. This policy shall assist in examination of the Town's system of financial reporting, internal controls, and corporate governance.

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 manage risks to be within 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 undertaken 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 two years from the date it becomes effective, and/or sooner at the discretion of the Director of Corporate Services/Treasurer.

4. **DEFINITIONS**

- 4.1. **Chief Administrative Officer (CAO)** is the Chief Administrative Officer for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 229 of the *Municipal Act, 2001*.
- 4.2. **Council** refers to the current elected Council for the Corporation of the Town of Amherstburg. This includes, as an entirety, the Mayor, Deputy Mayor and Councillors.
- 4.3. **Deputy Treasurer** is the Deputy Treasurer for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 286 of the *Municipal Act, 2001*.
- 4.4. **Director** is the person responsible for direction and operational control of a division as defined on the Town's organizational structure.
- 4.5. **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.
- 4.6. **Manager** reports directly to a Director (or the CAO in some instances) and who is responsible for a department within a division of the Corporation, as defined on the Town's organizational structure.
- 4.7. **Senior Management Team (SMT)** is comprised of the Chief Administrative Officer and the Directors. If a Director is unavailable, a delegate may be assigned.
- 4.8. **Staff** is any person employed with the Town of Amherstburg, including any union or non-union, regular or temporary, full-time, part-time, seasonal or casual staff member, including

but not limited to permanent staff, temporary staff, students, recreation staff, contract employees, and paid work placements.

4.9. **Town** is the Corporation of the Town of Amherstburg.

4.10. **Treasurer** is the Treasurer for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 286 of the *Municipal Act, 2001*.

5. **INTERPRETATIONS**

5.1. 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 are 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 AND AUTHORITIES**

7.1. **Chief Administrative Officer (CAO)** has the authority and responsibility to:

7.1.1. Ensure that all actions undertaken by employees are consistent with this policy.

7.1.2. Support the Town's control and risk management activities

7.2. **Director of Corporate Services/Treasurer** has the authority and responsibility to:

7.2.1. Provide guidance on the design and implementation of internal controls.

7.2.2. Develop and implement actions plans for improvement of internal controls as deemed necessary.

- 7.2.3. Establish, execute, and monitor the proficiency of internal controls and the potential exposure to risk.
- 7.2.4. Validate adequacy and effectiveness of controls, while providing recommendations to the CAO and Council.
- 7.2.5. In the absent of the Treasurer, the Deputy Treasurer shall assume the roles and responsibilities of the Treasurer.

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 _____

Control Environment	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initials W/P ref.
1. Risk: No emphasis is placed on need for integrity and ethical values				
Identify controls (if any) that apply such as: <ul style="list-style-type: none"> <input type="checkbox"/> Management continually demonstrates, through words and actions, a commitment to high ethical standards. <input type="checkbox"/> Management removes or reduces incentives or temptations that might cause personnel to engage in dishonest or unethical acts. <input type="checkbox"/> A code of conduct or equivalent exists that sets out expected standards of ethical and moral behaviour. <input type="checkbox"/> Employees clearly understand what behaviour is acceptable and unacceptable and know what to do when they encounter improper behaviour. <input type="checkbox"/> Employees are always disciplined for improper behaviour. <input type="checkbox"/> Other (explain). 				
2. Risk: Incompetent employees may be hired or retained				
Identify controls (if any) that apply such as: <ul style="list-style-type: none"> <input type="checkbox"/> Company personnel have the competence and training necessary for their assigned duties. <input type="checkbox"/> Management specifies the requisite knowledge and skills required for employee positions. <input type="checkbox"/> Job descriptions exist and are effectively used. <input type="checkbox"/> Management provides personnel with access to training programs on relevant topics. <input type="checkbox"/> Adequate staffing levels are maintained to effectively perform required tasks. <input type="checkbox"/> Initial and ongoing matching of staff skills to their job descriptions. <input type="checkbox"/> Staff are compensated and rewarded for good performance. <input type="checkbox"/> Other (explain). 				

Control Environment

Describe the evidence obtained and reviewed to support control design

What inquiries/observations made to assess control implementation?

Has risk been mitigated?

Initials W/P ref.

3. Risk: Ineffective management oversight provided by those charged with governance (where applicable)

<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> A majority of board members are independent of management. <input type="checkbox"/> There is appropriate experience, stature and financial expertise on the board (and the audit committee) to provide the necessary oversight. <input type="checkbox"/> Significant issues and other information (financial results, etc.) are communicated to the board in a timely manner. <input type="checkbox"/> The board provides effective oversight over management's activities. This includes raising difficult questions and pursuing answers. <input type="checkbox"/> The board of directors meets on a regular basis and minutes of meetings are circulated on a timely basis. <input type="checkbox"/> Where an audit committee exists, they have a charter outlining duties and responsibilities. <input type="checkbox"/> Discussions take place about the risk of management override and the effectiveness of internal controls over financial reporting. <input type="checkbox"/> Deficiencies identified in internal control are addressed on a timely basis. <input type="checkbox"/> The scope of activities of the external auditor(s) is reviewed at least annually. <input type="checkbox"/> Other (explain). 				
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4. Risk: Management has a poor attitude toward internal controls and/or managing business risks

<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Management demonstrates positive attitudes and actions toward: <ul style="list-style-type: none"> • The establishment and maintenance of sound internal control over financial reporting (including management override and other fraud), • Appropriate selection/application of accounting policies, • Information processing controls, and • The treatment of accounting personnel. <input type="checkbox"/> Management emphasizes appropriate behaviour to operating personnel. <input type="checkbox"/> Management has established procedures to prevent unauthorized access to, or destruction of assets, documents and records. 				
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Control Environment	Describe the evidence obtained and reviewed to support control design	What inquiries/observations made to assess control implementation?	Has risk been mitigated?	Initials W/P ref.
<input type="checkbox"/> Management analyzes business risks and takes appropriate action. <input type="checkbox"/> Other (explain).				
5. Risk: Ineffective/inappropriate organizational structure for planning, controlling and achieving objectives				
Identify controls (if any) that apply such as: <input type="checkbox"/> There is an appropriate organizational structure to facilitate achievement of entity objectives, operating functions and regulatory requirements. <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. <input type="checkbox"/> The entity structure facilitates the flow of reliable and timely information to the appropriate people for planning and controlling activities. <input type="checkbox"/> Incompatible duties are segregated to the extent possible. <input type="checkbox"/> Other (explain).				
6. Risk: Unclear lines of accountability/reporting leading to poor decision-making and possible errors in the financial statements				
Identify controls (if any) that apply such as: <input type="checkbox"/> There are policies and procedures for authorization and approval of transactions. <input type="checkbox"/> Appropriate lines of reporting exist, appropriate to the entity's size and nature of activities. <input type="checkbox"/> There is a process for assigning ownership of information and who is authorized to initiate or change transactions. <input type="checkbox"/> Job descriptions include control-related responsibilities. <input type="checkbox"/> The board of directors and/or audit committee considers how management identifies, monitors and controls business/financial risks affecting the entity <input type="checkbox"/> Other (explain).				

Control Environment

Describe the evidence obtained and reviewed to support control design

What inquiries/observations made to assess control implementation?

Has risk been mitigated?

Initials W/P ref.

7. Risk: No policies/procedures exist to ensure effective HR management

Identify controls (if any) that apply such as:

- Management establishes/enforces standards for hiring the most qualified individuals, with emphasis on education, prior work experience and evidence of integrity and ethical behaviour.
- 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.
- Job performance is periodically evaluated & reviewed with each employee and appropriate action is taken.
- Training policies address prospective roles and responsibilities and expected levels of performance and evolving needs.
- Other (explain).

Risk Assessment

Describe the evidence obtained and reviewed to support control design

What inquiries/observations made to assess control implementation?

Has risk been mitigated?

Initials W/P ref.

1. Risk: Management is often surprised by events (including internal and external events, transactions or circumstances) that were not previously identified/assessed or is continually reacting to events rather than planning ahead

<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Management has established and communicates the company's mission, strategy and objectives to employees. <input type="checkbox"/> Risks are regularly identified/assessed and updated as part of the business planning process. <input type="checkbox"/> Management identifies/assesses: <ul style="list-style-type: none"> • Business risks (that prevent achievement of objectives), business process risks and fraud risk factors, including management override. • 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. • Financial reporting risks that result from operations and compliance with laws and regulations. <input type="checkbox"/> Management develops a business plan/budget which is compared to actual results on a regular basis, variances explained and appropriate action taken. <input type="checkbox"/> Changes in risks are identified in a timely manner. <input type="checkbox"/> Management develops plans to mitigate significant identified risks. <input type="checkbox"/> Other (explain). 				
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Financial Reporting

Describe the evidence obtained and reviewed to support control design

What inquiry/observations made to assess control implementation?

Has risk been mitigated?

Initials W/P ref.

1. Risk: Transactions, events and conditions that are significant to the financial statements may not be captured or recorded				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Management has a good attitude regarding the disclosure of events and conditions that could be significant to the financial statements. <input type="checkbox"/> Staff is expected to communicate bad news to management on a timely basis. <input type="checkbox"/> Financial staff regularly reviews legal invoices, minutes and other similar types of documents for unrecorded events and conditions. <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. <input type="checkbox"/> Other (explain). 				
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				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Management employs competent personnel or hires appropriate specialist to prepare the financial reports (including estimates and accruals). <input type="checkbox"/> Accounting applications used for financial reporting utilize the standard control features found in most commercial software packages. <input type="checkbox"/> Spreadsheets used in F/S preparation are password- protected, kept in a central location, backed up and regularly checked for logic and calculation errors. <input type="checkbox"/> Procedures are in place to ensure that all transactions are recorded in accordance with GAAP. <input type="checkbox"/> All subsidiary ledgers are reconciled to the general ledger. These reconciliations are signed and dated by the preparer/reviewer and supporting documentation attached. <input type="checkbox"/> 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). <input type="checkbox"/> 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), management review and consistency in application 				

Financial Reporting	Describe the evidence obtained and reviewed to support control design	What inquiry/observations made to assess control implementation?	Has risk been mitigated?	Initials W/P ref.
<ul style="list-style-type: none"> <input type="checkbox"/> Period-end close procedures include definitions of account classifications, assignment of responsibilities and due dates. <input type="checkbox"/> With regard to journal entries: <ul style="list-style-type: none"> • A checklist exists of standard closing entries, • Journal entry input is restricted to authorized personnel, and • Manual entries are adequately supported and approved by management. <input type="checkbox"/> Management reviews and initials: <ul style="list-style-type: none"> • Calculations of estimates and accruals, • Reports of all journal entries posted, and • The financial reports produced, and inquires into variances and unusual amounts. <input type="checkbox"/> Access/authorization controls are in place to maintain the integrity of the chart of accounts. <input type="checkbox"/> Other (explain). 				
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				
<p>Identify controls (if any) that apply such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Management prepares a monthly financial reporting package (comparing actual results to budget) for review by those charged with governance. <input type="checkbox"/> Regular financial reports are prepared for key stakeholders such as financial institutions, investors, funders and regulators. <input type="checkbox"/> Other (explain). 				

Fraud Prevention

Describe the evidence obtained and reviewed to support control design

What inquiry/observations made to assess control implementation?

Has risk been mitigated?

Initials W/P ref.

1. Risk: Management has not considered or assessed the risks of fraud occurring (including management override)

Identify controls (if any) that apply such as:

- A positive workplace environment exists which minimizes employees' sense of feeling abused, threatened, or ignored.
- 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.
- Management has a formal process for identifying and documenting fraud risk which:
 - Explicitly considers potential fraud schemes and scenarios,
 - Addresses fraudulent financial reporting and misappropriation of assets by senior management, and
 - Assesses the likelihood and the impact (significance) of fraud.
- Those charged with governance regularly consider the potential for management override of controls.
- Management has a policy of informing the auditor on a timely basis about actual, suspected or alleged fraud affecting the entity.
- Where appropriate, a whistleblower program is in place where reports are communicated directly to the audit committee.
- Other (explain).

Monitoring

Describe the evidence obtained and reviewed to support control design

What inquiries/observations made to assess control implementation?

Risk mitigated?

Initials W/P ref.

1. Risk: No procedures exist to monitor whether internal controls are operating as intended or to correct identified control deficiencies on a timely basis

Identify controls (if any) that apply such as:

- Ongoing monitoring activities (such as exception and IT reports, etc.) are in place to address the operation of significant internal controls.
- Procedures are in place to monitor when controls are overridden and to determine if appropriate.
- Periodic evaluations of controls are conducted on key control systems by skilled personnel.
- Management takes appropriate action on:
 - Exceptions to policies/procedures,
 - Correcting deficiencies in internal control (including those identified by the auditor), and
 - Complaints of improper financial matters by external parties.
- Other (explain).

General IT Controls

Describe the evidence obtained and reviewed to support control design

What inquiries/observations made to assess control implementation?

Risk mitigated?

Initials W/P ref.

1. Risk: Possible destruction of data, improper changes, unauthorized or non-existent transactions, or inaccurate recording of transactions

Identify controls (if any) that apply such as:

- A job description exists for the IT manager and support staff (or person(s) assigned with IT responsibilities).
- Where a part-time IT support person is employed (agency or individual), a signed engagement letter is obtained, setting out roles and responsibilities.
- The data access and span of control exercised by IT staff is limited, where possible, through access cards, passwords and segregation of duties.
- 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).
- Job performance of IT staff is periodically evaluated, reviewed with the employee and appropriate action taken.
- Training policies address prospective roles and responsibilities and expected levels of performance.
- Management prepares a yearly IT plan/budget that sets out expectations and monetary constraints.
- Management has developed IT performance indicators and data is regularly collected and reported regarding achievement of these benchmarks.
- Other (explain).

2. Risk: No alignment exists between business objectives, risks and IT plans

Identify controls (if any) that apply such as:

- Management has prepared a plan (detailed budget) for IT that aligns business objectives with IT strategies.
- Management seeks input for the IT plan (needs and emerging risks) from others within entity.
- The IT group monitors its progress against the plan and takes appropriate action.
- Other (explain).

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

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 not undermined by control environment weaknesses).		

Prepared by _____ Date _____ Reviewed by _____ Date _____