

**Internal Controls Policy****Policy No. 1.3.11****Date of Policy:** October 11, 2018**Revision:****Motion Number:** 2018-580**1. Purpose**

Internal controls are a set of rules, procedures, and practices developed and employed to facilitate the safeguarding of an entity's assets be they liquid (cash or investments) or fixed (infrastructure or equipment) or intangible (credit rating or information).

The importance of internal control to an organization is determined by the level that its resources are directed, monitored, and measured. Resources include staff time and effort to protect all other resources through monitoring and measurement including steps to detect and prevent fraud.

The goals and objectives of this Internal Controls Policy are to protect public assets and to foster reliance on public information for decision making purposes at all levels, both internally and externally. This policy describes the purpose and major factors to be considered in the development of an effective internal control framework. It provides a framework to assist in the development of policies, practices, and procedures to collectively ensure that the financial and non-financial activities of Council are conducted in a proper manner.

**2. Introduction**

Internal control is a key factor in ensuring that the Town of Nipawin's resources are effectively and efficiently managed and that its resources are not misused or misappropriated. These controls are integral to the effective risk management of Council activities and to ensure there are appropriate policies and procedures that promote the achievement of Council's goals and objectives.

Internal control is not limited to financial matters. An effective internal control environment will provide the means by which Council can successfully address and mitigate many risks. The internal control system should be defined in respect to the financial, information and technological, human resource, and political and legislative activities of Council.

At the **organizational level**, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations.

At the specific **transaction level**, internal control refers to the actions taken to achieve a specific objective (for example, how to ensure the organization's payments to third parties are for valid services rendered). Internal control procedures reduce process variation (inconsistency), leading to more predictable outcomes.

Internal controls should be an integral part of any organization's financial and business policies and procedures. Internal controls consist of all the measures taken by the organization for the purpose of:

- Protecting its resources against waste, fraud, and inefficiency;
- Ensuring accuracy and reliability in accounting and operating data;
- Securing compliance with the policies of the organization; and
- Evaluating the level of performance in all organizational units

In establishing and assessing internal control practices it is necessary to recognize that in practical terms a certain level of risk will exist. The purpose of internal control is to provide assurance that the internal risks faced by the Town of Nipawin are minimized or contained to acceptable levels.

### 3. Principles

A comprehensive and appropriate system of internal control will include policies, practices, and procedures that provide a framework that ensures:

- Strategic Plan objectives are monitored and reported in an efficient and orderly manner
- Reporting information is accurate and reliable to facilitate sound decision making
- Policies and procedures are followed
- Compliance with the relevant legislation and regulations applicable to Local Government
- Assets are secured and protected from unauthorized use
- Records are complete, accurate, secure, and reliable
- Risks are identified, assessed, and mitigated where possible

Controls can be divided into three categories:

- Preventative – processes put in place to avoid undesirable events from occurring
- Detective – processes put in place to detect and subsequently correct undesirable events that have already occurred
- Directive – processes put in place to encourage a desirable event to occur

An internal control framework should be based on a proactive risk management approach that includes regular review and identification of the risks that exist within the Town of Nipawin's activities. The Town of Nipawin will maintain an effective Risk Management

Framework with internal controls included as an integral part of that framework. An appropriate internal control measure is applied to each key risk activity in order to reduce the inherent risk of that activity to an acceptable level.

#### 4. Definitions

*Internal Control* – Can be broadly defined as a process supported by the Town of Nipawin’s policies, procedures, and practices which collectively provide a reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability and accuracy of financial data
- Compliance with policies, procedures, legislation, and regulations

It recognizes that a ‘system’ of internal control extends far beyond those matters which relate solely to the financial matters of the Town of Nipawin.

*Management* – Includes the Chief Administrative Officer, Department Directors, Economic & Tourism Development Officer, and Fire Chief.

*Employee* – Includes persons employed by the Town of Nipawin, volunteers, trainees, work experience placements, independent consultants and contractors, and other authorized personnel offered access to the Town of Nipawin’s resources.

#### 5. Roles and Responsibilities

All personnel are responsible for communicating upward in the organization problems in:

- Operations;
- Policy or procedural violations; and
- Illegal actions

Everyone within the Town of Nipawin organization has a role in internal controls. The roles vary depending upon the level of responsibility and the nature of involvement by the individual.

Council is responsible for the Internal Control Policy.

The Chief Administrative Officer is accountable to Council for the development and implementation of appropriate systems to achieve accountability and integrity.

Management are responsible for the development of adequate internal controls and their implementation, evaluation, and revision on an ongoing basis in respect to all of the functions of Council under their control to ensure as far as possible that:

- Financial records and other relevant databases completely and accurately reflect the actual operational activities and the timely preparation of reports
- Assets are safeguarded from unauthorized use or disposal
- Irregularities are prevented or detected and corrected if they occur

Management is expected to promote a best practice approach in support of effective business practices and properly functioning controls.

Employees are responsible for conducting their duties in accordance with internal control policies, procedures, and practices of the organization. They are also responsible for reporting to Management instances where they consider the internal control procedures are inadequate or not being met.

## **6. Elements of Internal Control**

### **6.1. Control Environment:**

The control environment, as established by the organization's administration, sets the tone of the organization and influences and increases the awareness of its employees. Leaders of each department, area, or activity establish a local control environment. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include:

- Integrity and ethical values;
- The commitment to competence;
- Leadership philosophy and operating style;
- The way Management assigns authority and responsibility, and organizes and develops its employees;
- Policies and procedures

### **6.2. Risk Assessment:**

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives that are linked at different levels and internally consistent. Risk of assessment is the identification and analysis of relevant risks to the achievement of the objectives, forming a basis for determining how the risks should be managed. Because economics, regulatory conditions, and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Objectives must be established before the Chief Administrative Officer and Managers can identify and take necessary steps to manage risks. Operational objectives relate to effectiveness and efficiency of the operations, including

performance and financial goals and safeguarding resources against loss. Financial reporting objectives pertain to the preparation of reliable published financial statements, including prevention of fraudulent financial reporting. Compliance objectives pertain to laws and regulations which establish minimum standards of behavior.

The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to manage risks. Risks can pertain to internal and external factors. After risks have been identified they must be evaluated.

Managing change requires a constant assessment of risk and the impact on internal controls. Economic, industry, and regulatory environments change as entities' activities evolve. Mechanisms are needed to identify and react to changing conditions.

### **6.3. Limitations:**

Internal control can provide reasonable, not absolute, assurance that the objectives of an organization will be met. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures. No control should cost more than the benefit derived. For example, if the direct cost of the control is \$100 to protect a \$50 asset, it does not benefit the Town of Nipawin to use resources for that purpose.

Effective internal control implies the organization generated reliable financial reporting and complies with the laws and regulations that apply to it. However, whether an organization achieves operational and strategic objectives may depend on factors outside the enterprise, such as competition or technological innovation. These factors are outside the scope of internal control; therefore, effective internal control provides only timely information or feedback on progress towards the achievement of operational and strategic objectives but cannot guarantee their achievement.

### **6.4. Control Activities**

Policies and procedures that address business risks and provide detailed guidelines for carrying out activities include:

- Documented controls
- Reconciliations and verifications
- Physical asset controls and regular revaluation
- Financial accounting procedures including segregation of duties

- Information technology controls
- Budgeting and reporting procedures
- Record and data security

### **6.5. Monitoring Activities**

Management systems and internal activities need to be monitored to assess the quality of performance over time. This will include:

- Regular monitoring of the Strategic Plan objectives and activities to ensure desired outcomes are being achieved
- Reviewing documents that are provided to the community for accuracy and completeness, including bylaws, policies, budget documents, and financial statements
- Reviewing, assessing, and reporting on the documented internal controls to ensure best practices are in place and working effectively

### **6.6. Outcomes of Operating in an Internal Control Environment**

The following measures can be used as indicators to determine if the operating internal control environment is functioning successfully:

- Equitable, efficient, and effective use of resources (people, equipment, and funds)
- Minimized discrepancies, anomalies, and irregularities, or prompt detection and correction if they occur
- Assets are used only for authorized purposes and are not subject to improper removal or sale
- All financial and non-financial data, records, databases, and other material are complete and accurate, protected from loss or damage, and capable of being readily accessed to continue the efficient operation of the Town
- That the nature and impact of inherent and residual risks have been identified, assessed, and contained to an acceptable level

## **7. Review & Evaluation**

This policy will be reviewed annually and brought forward to Council with any recommended changes. Documented internal controls shall also be included in Council's annual review to ensure that Council is aware of all documented internal controls.

Management shall ensure that the documented internal controls are kept up to date with current practices and procedures. Management shall review the documented internal controls quarterly to address the changing needs of internal controls.