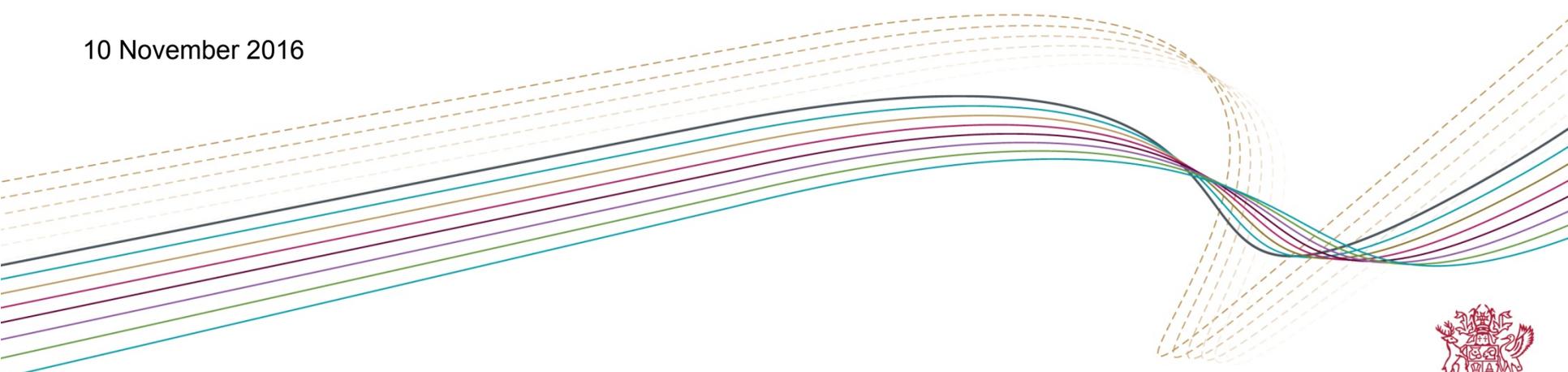


Introduction to Internal Controls

Lee Clayton – Queensland Treasury

10 November 2016



- Prescribed requirements
- What are internal controls?
- Why have them?
- Who is responsible?
- How do you know what they are?
- What can happen when things go wrong?
- Who can you talk to?
- Questions



Prescribed requirements

For departments and statutory bodies:

- *Financial Accountability Act 2009*
- *Financial and Performance Management Standard 2009*
- *Financial Accountability Handbook*

What are internal controls?

Internal controls are simply strategies and practices designed to manage and reduce risks



What are internal controls?

Think about what you do to reduce your personal risk



Keep ATM card and PIN separate



Lock the front door



Check credit card statements



Install an alarm



Password protect your on-line banking



Insure your valuables

What are internal controls?

Internal controls are the same at work.

We are responsible for safeguarding the public's assets.



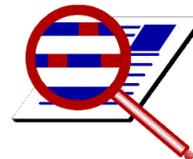
Types of effective internal controls



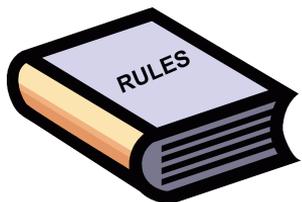
IT Controls



Physical Controls



Independent Review



Policies & Procedures



Segregation of Duties



Delegations

Segregation of duties

What is it?

- No one person has complete control over all aspects of a transaction, record or resource.

Why have them?

- It reduces the opportunity for an employee to commit and conceal errors (intentional or unintentional) or perpetrate fraud.

What does it mean for you?

- Ensure you always have different individuals to perform discrete functions. This will create a system of checks and balances.
- Don't rely on anyone else or let them do your task for you.



Independent review

What is it?

- An examination of transactions, information and events to ensure accuracy, completeness, appropriateness and compliance. Any exceptions should be investigated and reported.

Why do it?

- It is a basic control that helps to prevent or quickly detect errors, fraud or irregularities.



What does it mean for you?

- Review and verify information before it flows through to the next level of management and reporting.
- A system of robust checks may also act as a deterrent to potential fraudsters.
- Do not rely on someone else to pick up something you may have missed.

Information technology (IT) controls

What are they?

- Includes passwords, restricting access, firewalls, encryption and internet access limitations.

Why have them?

- Prevent unauthorised access to our system.
- Helps to ensure the completeness and accuracy of transactions and information, and compliance with privacy laws.

What does this mean for you?

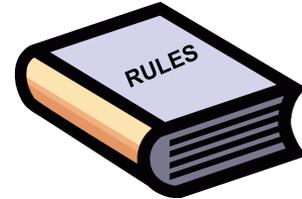
- Understand your agency's IT policy and establish computer security controls.
- Strong passwords, don't share your passwords, restrict access to user profiles, build in dual approval processes, backup and recovery procedures.



Written policies and procedures

What are they?

- Documents which provide guidance to employees to assist you in understanding your role and responsibilities.



Why have them?

- So employees know how they are required to act.
- To assist you meeting legal, ethical and public service requirements.

What does this mean for you?

- Regularly refer to current policies and procedures and know how to apply them.
- Inform senior management of any weakness or changes that need to be made.

What are they?

- An individual is given responsibility to authorise transactions or activities.

Why have them?

- An accountable officer (CEO) cannot approve every transaction or activity.
- Delegation frameworks document and communicate which activities require approval, and by whom, based on the level of risk.

What does this mean for you?

- If you have a delegation, know the limits of your delegation (dollar and type).
- Do not rely on someone else to tell you.
- Do not exercise more than one delegation in one transaction.



Physical controls

What are they?

- Securing and restricting access to assets.

Why have them?

- Reduce risk of loss or unauthorised use.
- Provide personal safety to people working in potentially dangerous environments.

What does this mean for you?

- Understand your agency's policies.
- Secure assets, particularly valuables.
- Keep asset register.
- Periodic stocktakes.



Who is responsible?

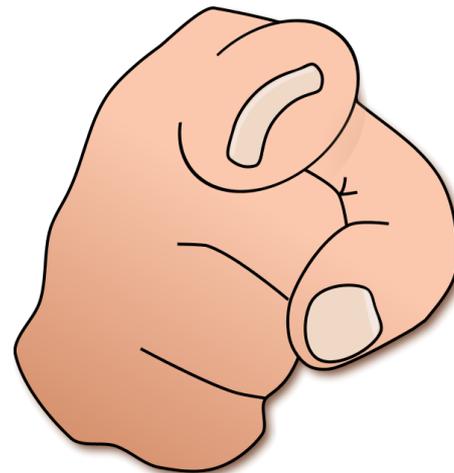
Accountable officer / board of statutory body

BUT

(in a practical sense)

- Chief Finance Officer
- Head of Internal Audit
- Everyone

YOU



How do you know what they are?

- Financial Management Practice Manual
 - including desktop manuals
- Manager / Supervisor
- Colleagues
- Agency training
- On-line internal controls training on Govnet
 - (Online Services → Internal Controls Training)



Limitations of internal controls

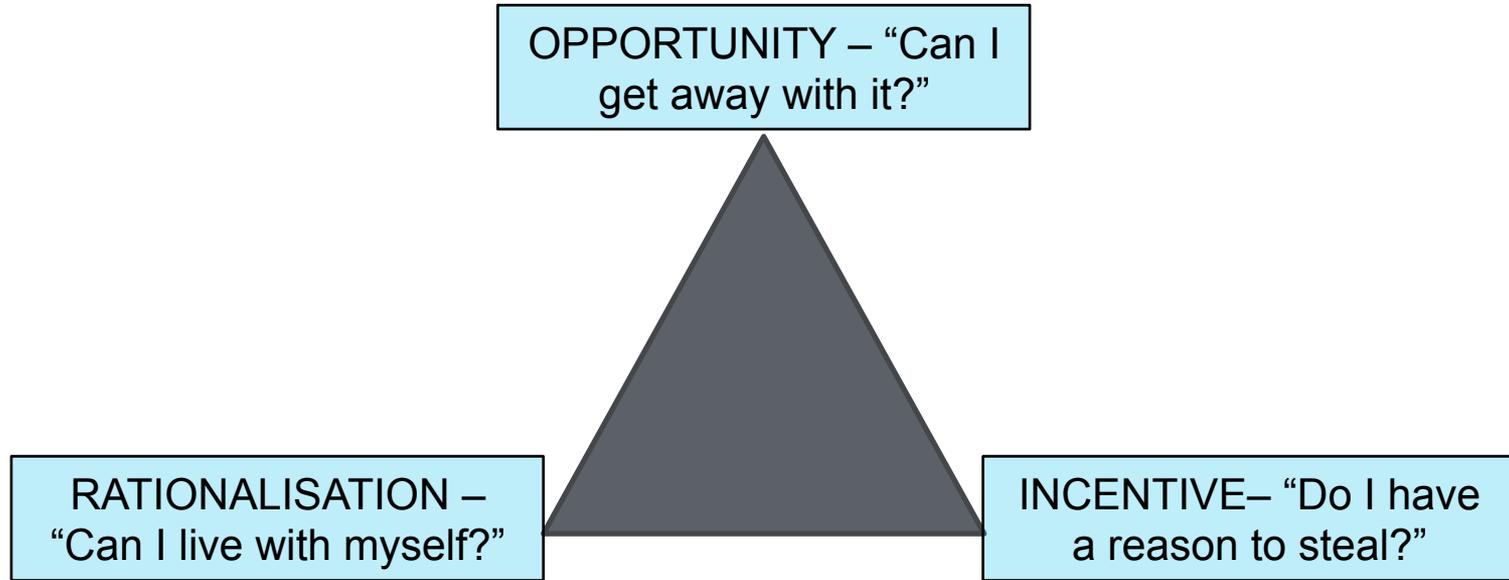
Effective internal controls can reduce risk – not eliminate risk. Limitations may result from system omissions, human factors, resource constraints or lack of system flexibility.

Causes of breakdowns in internal control systems may include:

- a culture that does not reinforce the value of internal controls
- staff carelessness, poor judgement or lack of knowledge
- staff taking short-cuts instead of following procedures
- staff failing to recognise or act on unusual transactions
- internal control processes which do not reflect changed operating conditions, specific agency activities or potential new risks
- collusion by staff for personal gain or other motives
- controls failing to capture or flag unusual transactions, and
- controls and processes being viewed as a hindrance in the delivery of agency services so are overridden.

What can go wrong?

- A former employee defrauded Queensland Health of approx \$16.69 million through a series of 65 fraudulent transactions (last one \$11 million) over a four-year period commencing October 2007. He was sentenced to 14 years imprisonment (eligible for parole after 5 years)
 - CMC report, September 2013
- A former senior employee defrauded a council of approx \$1 million by making a number of erroneous payments to suppliers, requesting the return of funds from the suppliers, and directing funds be returned to a private bank account.
 - QAO Report 19: 2014-15
- Employee and contractor misappropriated approx \$300,000 by setting up a 'ghost employment agency worker'
 - QAO Report 19: 2014-15
- Former employee dishonestly claimed nearly \$40,000 in overtime via timesheet fraud. Sentenced to two years' imprisonment, suspended after 3 months
 - CCC media release, 8 October 2015





People

- Unwillingness to share duties or take leave.
- Refusal to implement internal controls.
- The replacement of existing suppliers upon appointment to a position or unusually close association with a vendor or customer.
- A lifestyle above apparent financial means; the provision of gifts to other staff members.
- Failure to keep records and provide receipts.
- Chronic shortage of cash or seeking salary advances.
- Past legal problems (including minor thefts).
- Addiction problems (substance or gambling).

Areas or Activities

- Financial information reported is inconsistent with performance indicators.
- Abnormally high and increasing costs in a specific cost centre function.
- Dubious record keeping.
- High overheads.
- Bank reconciliations not up to date.
- Inadequate segregation of duties.
- Reconciliations not performed on a regular basis.
- Small cash discrepancies over a period of time.

Who can you talk to?

- Manager / supervisor
- Accountable officer / chair of statutory body
- Chief finance officer / finance branch
- Head of internal audit / internal audit unit

- Queensland Audit Office
- Crime and Misconduct Commission



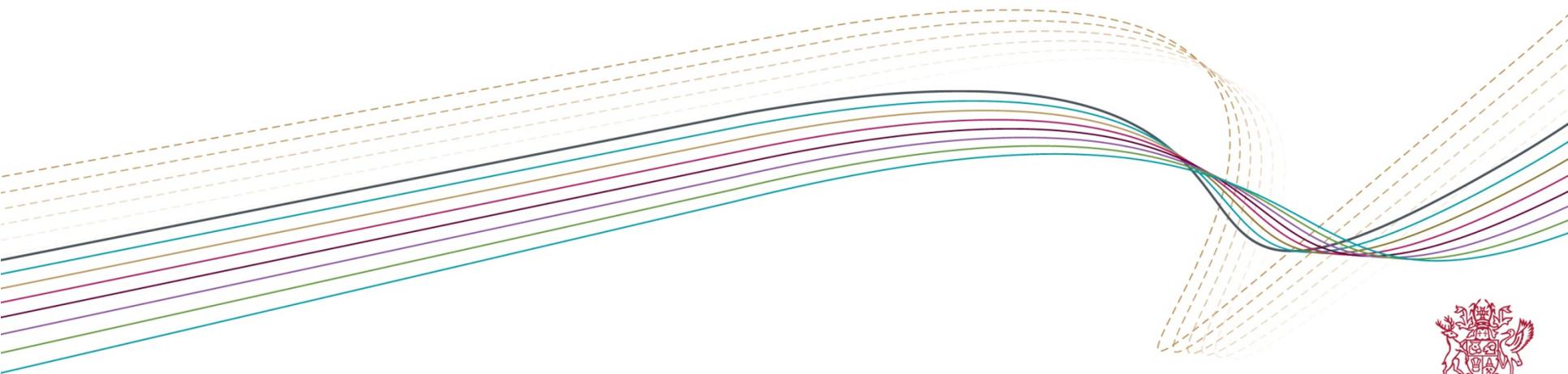
IF IN DOUBT – ASK!

Key messages

- Legislated responsibility
- Everyone is responsible
- Know your FMPM
- Don't rely on others
- Internal controls protect YOU!
- Ask questions / speak up



Questions



Thank you

