AD 23  Internal Control

Classification: Administration
Responsible Authority: Director, Finance & Administrative Services
Executive Sponsor: Vice President, Finance & Administration
Approval Authority: Algonquin College Executive Team
Date First Approved: 2018.03.14
Date Last Reviewed: 2018.10.31
Mandatory Review Date: 2023.10.31

PURPOSE
The purpose of this policy is to describe the roles and responsibilities of the College's employees for the management of internal controls that provide reasonable assurance as to the effectiveness and efficiency of the College's operations, the reliability of College financial reporting and compliance with the laws, statutes and regulations that govern the College.

The implementation of this policy is intended to meet stakeholders' expectations that the College be well managed and demonstrate prudent stewardship of College funds and resources including safeguarding the assets for which it is entrusted.

SCOPE
This policy applies to all employees and all College operations. All employees produce information used in the internal control process and/or take actions needed to effect control.

DEFINITIONS

<table>
<thead>
<tr>
<th>Word/Term</th>
<th>Definition</th>
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<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations of the Treadway Commission</td>
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| Internal Control| a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
|                 | • Effectiveness and efficiency of operations                                                           |
|                 | • Reliability of financial reporting                                                                  |
|                 | • Compliance with applicable laws and regulations                                                     |
|                 | • Safeguarding of Assets                                                                               |
**POLICY**

It is the policy of the College that the framework for internal control is continuously managed to demonstrate sound management practices and stewardship of resources and that all College employees carry accountability and responsibility that supports the effective operation of the system for internal control.

**PROCEDURE**

<table>
<thead>
<tr>
<th>Action</th>
<th>Responsibility</th>
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<tbody>
<tr>
<td>1. Ensures College management monitors compliance with guidelines and statutes applicable to the College</td>
<td>President</td>
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<tr>
<td>1.1 Ensures the establishment, maintenance, monitoring and review of the College's process of internal control</td>
<td>Vice President Finance &amp; Administration</td>
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<td>1.2 Annually prepares a representation acknowledging:</td>
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<td>- the responsibility of management for ensuring the maintenance of the effectiveness of the College's process of internal control;</td>
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<tr>
<td>- the conduct of an annual risk assessment of the process of internal control to determine those events or actions which could adversely affect the achievement of the College's objectives; and</td>
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<td>- the establishment and completion of action plans designed to remedy weaknesses in the process of internal control</td>
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<td>1.3 Annually reports the results of the assessment on internal control and action plans taken in response to identified weaknesses</td>
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<td>2. Ensures the effective implementation of this policy through</td>
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<td>- the development and implementation of relevant procedures and plans and</td>
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<tr>
<td>- monitoring and reporting compliance with the established policy, procedures and plans.</td>
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<tr>
<td>2.1 Ensures the President is advised when significant breaches of the policy or discrepancies are identified</td>
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2. Provides guidance to the management team on the implementation of the framework and execution of associated plans.

3. Provides College-wide leadership in the implementation and communication of this policy

3.1 Establish and maintain the process of internal control for their respective areas of responsibility

3.2 Maintain the process of internal control related to financial management and compliance with authorities including reporting for their cost centers, in collaboration with the Vice President Finance & Administration

4. Support and ensure the implementation of policies and procedures through documentation and standard operating procedures at the department and unit levels.

4.1 Ensure effective monitoring and accurate reporting of activities that support the achievement of business objectives, as required

5. Familiarize themselves with this policy and attend any required training regarding its implementation

5.1 Conduct their duties in accordance with the College's internal control policy, procedures and practices

5.2 All personnel are responsible for communicating to their supervisor problems in operations and non-compliance with the College values, Employee Code of Conduct, Conflict of Interest Policy or other policy violations, as well as any illegal actions.

SUPPORTING DOCUMENTATION
Appendix 1 – Internal Control Policy Guideline

RELATED POLICIES
AD 12 Travel, Meals and Hospitality
AD 15 Employee Acceptance of Gifts
AD 19 Fraud Prevention
AD 21 Whistle-Blowing
HR 12 Conflict of Interest
HR 18 Employee Code of Conduct
RELATED MATERIALS

Finance Budget Principles

Ontario Ministry of Finance’s Broader Public Sector Procurement Directive
https://www.doingbusiness.mgs.gov.on.ca/mbs/psb/psb.nsf/English/BPSSC-Sec

Purchasing Policy & Procedures Manual

AD 23: APPENDIX 1

AD23 Internal Control Policy Guideline

Introduction

“Internal Control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.”

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

This guideline is intended to support the policy by:
- providing context for the policy
- describing the internal control framework
- articulating roles and responsibilities for the management of internal control,
- describing the governance foundation and tone-from-the-top for internal control

The COSO model is shown in Fig. 1. The illustration demonstrates the concept of integrated controls that apply across the entire organization and occur at every operating level of the entity. The seventeen principles of internal control are listed along the right side of the illustration. Each principle clearly relates to multiple activities, processes and systems within the College that, in the aggregate, demonstrate a commitment to the principles. This framework for internal control is robust and allows the College to continually develop, enhance and formalize processes that serve to enhance the strength of our control environment.

Internal control is not one event or circumstance, but a dynamic and iterative process. It is a condition that results from actions that permeate an entity’s activities and that are inherent in the way management operates the entity. Policies reflect board and management intentions while procedures and standards reflect actions that implement the policies and can be monitored and reported accurately.

A properly functioning system of internal controls improves the efficiency and effectiveness of operations, contributes to safeguarding assets and identifies and discourages irregularities, such as questionable or illegal payments and practices, conflict of interest activities and other diversions of assets. The internal control framework sustains a basis for monitoring and reporting that provides reasonable assurance as to the efficiency and effectiveness of College operations, the reliability of College financial reporting and compliance with legal and regulatory requirements that govern the College.

Certain fundamental concepts of internal control are reflected throughout the framework:

- Internal control is a process. It is a means to an end, not an end in itself.
- Internal control is effected by people. It is not merely policy manuals and forms, but people functioning at every level of an organization.
- Internal control is geared to the achievement of objectives
The College engages in Strategic Planning that produces annual business plans to support the achievement of strategic goals. The strategic plan ultimately supports the mission and vision of the College. Enterprise risk management is focused on those Strategic / Reputation, Legal / Compliance, Operational / Hazard and Financial risks that may undermine or negatively influence the College’s ability to achieve its strategic goals.

The internal control framework is a process by which controls are developed, monitored and reported to provide reasonable assurance to the Board of Governors that the College is operating efficiently and effectively in pursuit of the stated business goals and to establish management accountability for the operation of the College.
Internal processes can be a significant source of risk for the College across all four of the risk categories identified above. Internal controls serve to mitigate these risks and generate reporting that facilitates management intervention and transparency in the operation of the College. Internal controls are particularly focused on reputation and return on investment (financial efficiencies and risk).

Increasingly, there is a demand on public organizations to be transparent and accountable for financial and ethical practices. The College core values of Caring, Learning, Integrity and Respect frame the internal environment for ethical practices. As the steward of financial resources, management is accountable for the financial outcomes of the College and responsible to ensure prudent use of resources to sustain the financial health of the organization.

Significant reputational harm results in instances where organizations have been shown not to meet standards of practice in these areas. Internal control brings reasonable assurance that the College is operating within its stated core values and that financial transactions are being effectively managed and accurately reported.

Ultimately, internal control encourages sound management of practices, establishes accountability and facilitates oversight and transparency of operations.

**Roles and Responsibilities**

The Board of Governors is responsible to ensure good governance and maintain oversight of College operations. Management is entrusted to operate the College and provide assurances to the Board of Governors that speak to both the effectiveness and efficiencies of the College operation. The following excerpts summarize references to this process in various Board policies and the Terms of Reference for the Audit & Risk Management Committee of the Board of Governors.

**BG I-01 Responsibilities of the Board of Governors**

**Board Governance Policy – Board Process**

1. The Board shall perform the responsibilities of the Board identified in the Minister’s Binding Policy Directives. These include:
   1.1. The Board shall establish governance structures to enable the achievement of expected institutional outcomes with clear lines of communication and internal accountability (Governance p. 3).
   1.2. The Board shall set the College mission, vision, strategic directions, and overall goals and outcomes within the context of the appropriate laws, government policy, and local need (Governance p. 3). Working with the Management of the College, the Board shall develop a strategic plan in support of that mission statement and ensure that mechanisms are in place to monitor the College performance against the strategic plan. (Appendix B p. 14).

2.2. The Board should ensure that appropriate practices are implemented to identify and manage institutional risk including appropriate monitoring and reporting (Appendix B p. 15).

2.3. The Board should ensure that regular reports on the operational and financial situation of the College are completed, including reports on the progress the College is making towards meeting the strategic plan and on performance measures against benchmarks. The Board should also ensure that necessary and appropriate audit systems are in place (Appendix B p. 20).
**BG II-02: Financial Management**

**Board Governance Policy - Directive**

4. **Financial Controls**

4.1 The President shall exercise care in accounting for and protecting the financial assets of the College. To this end, the President will incorporate internal controls in the financial systems used by the College.

6. **Asset Protection**

6.1 Assets shall be protected, adequately maintained, and not placed unnecessarily at risk. The College shall comply with all aspects of the Broad Public Sector procurement directive.

**Terms of Reference – Audit and Risk Management Committee of the Board of Governors**

3. **RISK MANAGEMENT/INTERNAL CONTROLS**

a. Discuss with the College’s corporate officers, the College’s significant risks and the measures the officers have taken to monitor and manage these risks.

b. Review with senior management the adequacy and effectiveness of controls and management and information systems, including accounting and budget controls, financial planning and computer operation, information technology (IT) and security.

c. Review the President’s biannual report on incidences of fraud.

d. Review each June a summary of single/sole source procurement transactions over $100,000.

e. Oversee the College’s system for monitoring compliance with legislative requirements.

**Management Responsibility for Internal Control**

Management is responsible for establishing, maintaining and promoting effective business practices and effective internal controls. Systems of internal control vary from activity to activity depending on the operating environment, the size of the entity, the diversity of operations and the degree of centralization of financial and administrative management. While there may be practical limitations to the implementation of some internal controls, each business function throughout the College must establish and maintain a system of controls, which meets the minimum requirements as established by the Internal Control Policy.

Effective administration involves planning, executing, monitoring and reporting. Internal control is a process used by administrators to accomplish these activities.

**Managers and supervisors are responsible for executing control policies and procedures within their departments by:**

- Maintaining a positive office environment that encourages internal controls;
- Documenting policies, procedures and standard operating procedure at the unit level that are to be followed in performing activities and that support the achievement of business objectives;
- Identifying the control objectives for each function and implementing cost effective controls designed to meet those objectives; and
- Regularly testing the controls to verify they are performing as intended.
Employees are responsible for complying with and implementing internal controls by:

- Successfully fulfilling the duties and responsibilities established in their job description;
- Monitoring work to ensure it is done properly and that errors are corrected promptly;
- Meeting applicable performance standards;
- Taking all reasonable steps to safeguard assets against waste, loss, unauthorized use and misappropriation;
- Adhering to all applicable policies and procedures;
- Attending education and training programs to increase awareness and understanding; and
- Reporting breakdowns in internal control systems to their supervisor or manager.

Internal Control Systems

Internal control systems are basic management practices that usually involve a policy establishing the intention of the organization, procedures to implement the policy and standard operating procedures that describe the necessary steps to carry out the procedures consistently. Internal control systems represent the mechanics of an organization that interprets strategic initiatives, laws and regulations, industry standards and practices and implements the requirements to achieve or meet the established objectives.

Generally, control types fall into two different categories; Preventive Controls and Detective Controls. Preventive controls operate to prevent errors or inconsistencies from occurring, resulting in enhanced quality of performance. Detective controls are designed to detect errors or inconsistencies once they have occurred and create an opportunity for remediation.