

TREASURER'S DIRECTIONS
GOVERNANCE – Accountability
Section G2.2 : Internal Control

STATEMENT OF INTENT

Internal control is an important element in promoting operational efficiency and effectiveness, safeguarding assets and managing liabilities. This Section provides Agencies an overview of the framework and principles of internal control.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Internal Controls

- Internal controls are systems and processes that an Agency adopts to promote efficient and effective operations and delivery of services.
- An Agency is to comply with all elements of the financial management framework, which consists of the *Financial Management Act*, the *Fiscal Integrity and Transparency Act*, Treasurer's Directions, Policy Briefs, the Financial Management Toolkit and Northern Territory Government policies and procedures issued by the Department of Business and Employment.

Principle for Effective Internal Control

- Overarching principles that enable effective internal control include risk identification and management, delegations, segregation of duties and existence of source documentation.

The Control Environment

- Internal control systems and processes are part of an Agency's overall control environment, which also includes management philosophy and operating style, organisational structure, the code of conduct and human resource policies and practices.

For authoritative instruction and guidance reference should be made to related Treasurer's Directions and associated commentary.

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AUTHORITIES

Financial Management Act

Fiscal Integrity and Transparency Act

WHAT ARE INTERNAL CONTROLS ?

G2.2.1

Internal controls are systems and processes that an Agency adopts to:

- promote efficient and effective operations and delivery of services;
- safeguard its assets and manage its liabilities;
- manage its risk exposure, including prevention and detection of fraud;
- maintain the accuracy and reliability of its financial and management information systems; and
- ensure compliance with statutory and regulatory provisions.

- (i) Section 13(2) of the *Financial Management Act* provides that Accountable Officers must ensure that appropriate internal control procedures are in place.

G2.2.2

An Agency is to comply with all elements of the financial management framework, which consists of:

- the *Financial Management Act* ;
- the *Fiscal Integrity and Transparency Act*;
- Treasurer's Directions;
- Policy Briefs;
- the Financial Management Toolkit; and
- Northern Territory Government policies and procedures issued by the Department of Business and Employment.

- (i) The *Financial Management Act* (FMA) relates to the financial management of the Northern Territory Government and outlines requirements for Agency financial management and reporting.
- (ii) The *Fiscal Integrity and Transparency Act* (FITA) provides a framework for whole of government financial management and reporting. It requires the government to set fiscal policy and publicly release a fiscal strategy with each budget. Fiscal policy and fiscal strategy results in the monitoring of key financial indicators at a whole of government level.
- (iii) Treasurer's Directions (TDs) provide Accountable Officers with the principles, practices and procedures to be observed in the administration of the financial affairs of the Territory and Agencies.
- (iv) Policy Briefs provide additional guidance to assist an Agency in complying with the Treasurer's Directions.

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- (v) The Financial Management Toolkit draws together elements of the FITA, FMA, TDs, Policy Briefs and Department of Business and Employment (DBE) policies and procedures, along with principles of good financial management, in order to assist Accountable Officers and their employees in meeting their internal control responsibilities.
- (vi) DBE is a shared corporate services provider to all Northern Territory Government agencies including financial, human resources, tendering, procurement policy, information and communications technology, records management, property management, fleet and printing services. DBE's policies and procedures cover these various services.
- (vii) Appendix A depicts the hierarchical relationship between the different elements of the financial management framework.

PRINCIPLES FOR EFFECTIVE INTERNAL CONTROL

G2.2.3

Overarching principles that enable effective internal control include:

- **risk identification and management;**
- **delegations;**
- **segregation of duties; and**
- **existence of source documentation.**

- (i) Risk identification and management involves systematically reviewing the environment in which an Agency operates, identifying potential threats and mitigating impacts on an Agency's achievement of goals and objectives.
- (ii) Setting delegations means establishing appropriate authority levels for payment approvals, data entry, computer access and other operational requirements.
- (iii) Segregation of duties involves separating conflicting functions, for example, a person taking cash receipts is not responsible for banking functions.
- (iv) Source documentation confirms and provides evidence supporting and validating transactions, claims and statements.

THE CONTROL ENVIRONMENT

G2.2.4

Internal control systems and processes are part of an Agency's overall control environment, which also includes:

- **management philosophy and operating style;**
- **organisational structure;**
- **the code of conduct; and**
- **human resource policies and practices.**

- (i) The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. It is underpinned by active management support and participation in the control process.

APPENDIX A

NORTHERN TERRITORY GOVERNMENT FINANCIAL MANAGEMENT FRAMEWORK

