Introduction

An effective internal control system can only ever provide reasonable assurance that an agency’s operating systems, financial controls, reporting and other agency processes are working effectively. No matter how well designed and operated, internal control systems cannot provide absolute assurance that agency objectives have been, and will continue to be, met.

Designing and implementing effective systems of internal control requires management to clearly understand agency objectives and its operating environment. Management also needs to recognise the inherent limitations in the design and application of systems that may impact on the ultimate delivery of agency objectives and services.

This Information Sheet is designed to highlight the inherent limitations in systems of internal controls and processes, and suggest actions to minimise potential internal control breakdowns.

Internal controls - potential limitations

Effective internal control systems reduce the probability of errors or omissions in agency operations. However, there can be limitations in the effectiveness of internal controls. These limitations may result from system omissions, human factors, resource constraints or lack of system flexibility.

For example, 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.

Actions to minimise internal control breakdowns might include:

- management displaying a culture of responsiveness to identified control weaknesses and encouraging reporting of internal control weaknesses
- training in internal control processes as part of staff induction, with regular follow up training
- easy access to user-friendly documented internal procedures
- having a financial management practice manual that reflects current practice of the agency
- regular review of potential risks that may significantly impact agency operations
- regular review and update of internal operational, financial and other processes
• establishment of effective internal audit and risk management functions
• assessment and adoption of audit recommendations, when appropriate, and
• design and implementation of an effective fraud, corruption and official misconduct mitigation strategy.

Smaller agencies and bodies

Smaller agencies and offices with few staff (for example, departmental regional offices) may have limited opportunities to apply internal control processes as rigorously as would be the case in larger offices (for example, less effective segregation of duties due to limited staff numbers).

In these instances, it is suggested that agency management consider the adoption of innovative measures to assist in mitigating the impact of potential limitations in agency internal control systems.

Examples of such measures may include:
• spot checks of various transactions
• regular reporting from agency management on specific operational matters and agreed key performance indicators, and
• for smaller statutory bodies, utilising independent board members to approve or review transactions.

Related resources

• Fraud and corruption control – guidelines for best practice, Crime and Misconduct Commission, Queensland, 2005

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact the relevant Business Branch of Treasury for your agency.

Alternatively, email the Financial Management Helpdesk with details of your query and a response will be provided:

• Email: fmhelpdesk@treasury.qld.gov.au