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COUNCIL POLICY

Internal Financial Control

Policy Number:	PO156		
Strategic Plan Objective	Responsible Governance		
Policy Owner:	Director Corporate and Community Services	Record Number:	16/32279
Responsible Officer:	Manager Financial Services	Minute Reference:	010/2017 (18/01/2017)
Date Adopted:	18 th January 2017	Next Review Date:	December 2018

1. POLICY OBJECTIVES

This Internal Financial Control Policy establishes a framework to ensure:

- Risks relating to the stewardship of public resources are adequately managed through effective internal controls.
- Managers are made aware that they are responsible for ensuring that internal controls are established, documented, maintained and adhered to across the council and conveyed to all employees that they are responsible for adhering to those internal controls.
- The propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency.

2. SCOPE

Internal control is part of Council's corporate governance framework and covers areas such as strategic management, business development, project management, financial management and human resource management. It comprises procedures to mitigate risks and provide reasonable assurance that operations are efficient and effective, assets are safeguarded, legislation and council policies/rulings are complied with and financial reporting is accurate and reliable.

As a first step towards developing a complete risk management and corporate governance framework the financial component of internal controls will be addressed and these are required to ensure Council resources are used prudently and in an efficient, effective and economical manner. Examples of the types of activities addressed are accounts payable, payroll, budgeting, management reporting, banking and contracting. Financial internal controls are critical to effective risk management of a Council's operations and promote the achievement of its goals and objectives.

This Policy operates as a direct consequence of the provisions of Section 125 (Internal Control Policies) of the LG Act 1999. In addition Section 129 (Conduct of Audit) of the LG Act 1999 requires an external auditor to form an opinion as to whether there is sufficient evidence providing reasonable assurance that the transactions undertaken by Council have been conducted properly and in accordance with law.

This has been further elaborated upon within the Local Government (Financial Management) Regulations 2011 (the Regulations) at Part 6 – Audit clause 19(b) which states an audit of the internal controls must be carried out in accordance with Standards

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set out by the Auditing and Assurance Standards Board, established under the Australian Securities and Investment Commission Act 2001.

The Regulations state in forming this opinion the auditor must assess internal financial controls of the Council based on the criteria contained in the Better Practice Model – Internal Financial Controls.

The Better Practice Model (BPM) has been agreed and adopted by peak local government financial management and auditing bodies as the framework by which all local government Councils in South Australia self-assess risk management areas of their business and establish control measures to mitigate inherent risk associated with the services they provide the public and administrative operations.

In addition to the BPM, the LGA has published Financial Sustainability Information Papers (FSIP) as part of its ongoing Financial Sustainability Program (FSP) with the aim of harmonising high-level policy positions for Council administration adoption and use.

While the Information Papers are not statutory measures, they are considered best practice for Council to commit to. The two papers referenced in this policy are:

- LGA FSIP No. 21 – Internal Financial Controls and;
- LGA FSIP No. 18 – Financial Policies and Procedures.

Council is committed to maintaining an effective Internal Control environment.

3. DEFINITIONS

Internal Financial Control	Risk Management framework that manages the risk to the organisation from error or fraud and therefore assists in the achievement of a Council's objectives.
Better Practice Model (BPM)	Internal Control and Risk Management framework that Local Government bodies in SA have adopted to self-assess, apply and monitor measures in order to minimise risk when undertaking all financial transactions. This is commonly known as the Better Practice Model – Internal Financial Controls.
Framework	A layered structure that underpins and informs the financial reporting policies and procedures for Council.
Corporate Management Team (CMT)	Includes the CEO and Directors.
Employee	Includes persons employed by Council, volunteers, trainees, work experience placements, independent consultants and contractors and other authorised personnel offered access to the Council's resources.

4. POLICY STATEMENT

4.1 Risk Management Approach

Council will maintain an internal control framework, which will be based upon a proactive risk management culture. The types of risks identified in the framework will

be those which may prevent Council from meeting its objectives or not maximising its opportunities. The first risk area covered by Council is financial management, for which internal controls will be identified, documented and managed. It is recognised that all risks cannot be eliminated, however the internal controls applied should reduce the likelihood of the risk occurring to within acceptable limits of risk.

Council will develop a culture that emphasises integrity, ethical values and competence.

4.2 Roles and Responsibilities

The Council (Elected Members) are responsible for approval of the Internal Control Policy.

The Chief Executive Officer is responsible for developing and maintaining an Internal Control Framework, which ensures Council objectives are achieved efficiently and effectively. Updates on changes to the framework will be presented to the Audit Committee.

The Council Audit Committee is responsible for review of any proposed changes to this policy and the framework as part of its role to review the effectiveness of the Internal Control system, in accordance with its Terms of Reference.

The Chief Executive Officer and Mayor must also sign the financial statements in regard to Internal Controls as required by the Local Government (Financial Management) Regulations 2011 Regulation 14.

The Corporate Management Team, Managers and Supervisors must adopt a risk management approach to identifying and assessing risks and apply cost/benefit analysis in the development of internal controls.

Council employees must conduct their duties in accordance with internal control policies, procedures and practices of Council and are expected to undertake training in aspects of control that directly affect their own work procedures and also maintain an awareness of other control practices within the Council.

The Internal Auditor may investigate, evaluate and report on any aspect of the internal financial control system. They assist the Audit Committee and management at all levels by providing analyses, appraisals, recommendations and pertinent comments in respect of the activities reviewed.

4.3 Elements of an Internal Control Framework

The essential elements of an effective internal control framework are:

- Structure and culture of Council;
- Delegations of Authority;
- Policies and procedures;
- Trained and properly qualified staff;
- Information Technology controls;
- Review process e.g. internal audit;
- Liaison with auditors and legal advisors;
- Senior Management compliance assurance;
- Risk identification and assessment.

4.4 Nature of Internal Controls

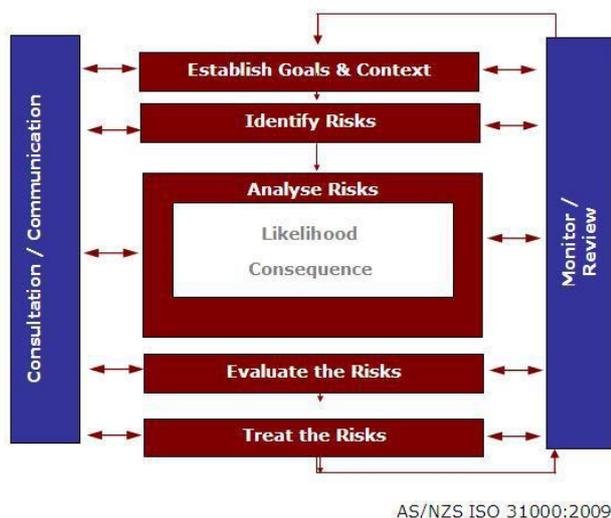
Policies and procedures which have been put in place as an Internal Control are either proactive or reactive in nature. They can be described as follows:

- Preventative – processes are put in place to avoid undesirable events from occurring
- Directive – processes are put in place to encourage a desirable event to occur e.g. treasury management policy
- Detective – processes are put in place to detect and subsequently correct undesirable events that have already occurred e.g. two signatories for all cheques disbursed

4.5 Risk Management Process

The process followed by Council in developing the framework appears below in diagrammatic form extracted from Australian/New Zealand Standard AS/NZS ISO 31000:2009.

The Risk Management Process



- Establish Goals & Context – Effective risk management requires a thorough understanding of the goals and context of Council to assist in establishing the assessment criteria for risk management.
- Identify Risks – Identify the risks most likely to impact on the achievement of Council's objectives.
- Analyse Risks – Assess effectiveness of risks in terms of likelihood and consequence to identify the current risk level.
- Evaluate Risks – Determine whether the risks are acceptable or unacceptable and document findings.
- Treat Risks – Treat risks by one of the following methods - discontinuing activity that generates it, reducing likelihood of occurrence, reducing consequence of occurrence, transfer the risk or retain the risk.
- Consultation/Communication – These are important elements to ensure that all stakeholders understand why actions are required. These stakeholders include all staff and Elected Members.
- Monitor/Review – Responsible officers must be identified for each internal control and provide feedback to Managers on progress with controls. The Managers monitor the effectiveness of risk treatments and report progress to the Corporate Management Team and the Audit Committee at regular intervals.

5. COMPLAINTS

Complaints in relation to this policy can be directed to the Director Corporate and Community Services and will be managed in accordance with Council's PO147 Complaints Policy.

6. REVIEW

An ongoing program of review should be implemented to monitor and identify any changes in the level of type of risk exposure. A risk review should also be undertaken in response to a process or system change.

The aim of a review is to:

- Assess reliability and integrity of system information
- Ensure that system procedures comply with policies, standards, laws and regulations
- Evaluate system compliance to written procedures and work practices
- Determine overall effectiveness
- Identify issues
- Plan & implement changes

Major task of a review program are to:

- identify key issues
- assess whether associated control are effective and
- determine whether additional or different controls are needed

The assessment of risks should consider aspects of internal control including:

- relevant principles
- recommended practices
- key issues
- options for improvement

The Corporate Management Team is to be informed of the outcome of each review and updated regularly on progress with action plans identified during the reviews.

The Audit Committee is to be updated regularly on progress with action plans identified during the reviews.

This policy will be reviewed and updated every two (2) years.

7. TRAINING

Council is committed to supporting employees in complying with this policy.

Training needs will be reviewed annually, during individual performance reviews and as necessary in consideration of any changes to legislation and relevant standards, codes and guidelines.

8. RELATED COUNCIL POLICIES AND DOCUMENTS

- Council's Delegations Register
- PO148 Fraud and Corruption Prevention Policy
- PO134 Whistleblower's Protection Policy
- PO58 Purchasing and Procurement Policy
- PO84 Corporate Purchase Card Policy
- PO95 Cheque Signatories

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- PO139 Treasury Management Policy
- PO72 Sale and Disposal of Land & Other Assets Policy
- PO91 Risk Management Policy
- Banking and Cash Handling Procedure

9. REFERENCES AND LEGISLATION

- Local Government Act 1999 – *Sections 125, 126, 128, 129 and 130*
- Local Government (Financial Management) Regulations 2011 – *Regulations 14, 17 and 19*
- Australian/ New Zealand Standard AS/ NZS ISO 31000:2009
- Better Practice Model – Internal Financial Controls
- Australian Securities and Investment Commission Act 2001
- LGA FSIP No. 21 – Internal Financial Controls
- LGA FSIP No. 18 – Financial Policies and Procedures
- Local Government Code of Conduct for Council Employees

10. COUNCIL DELEGATION

Details of Delegation:	Director Corporate and Community Services
Delegate:	Manager Financial Services

11. VERSION HISTORY

Archived Policy Name	Policy Number	Date Adopted	Last Reviewed
Internal Financial Control Policy	PO156	14/12/2016	New Policy