COUNCIL POLICY

Internal Financial Control

Policy Number:	PO156		
Strategic Plan Objective:	5. Responsible Governance and Leadership		
Policy Owner:	Director Corporate and Community Services	Record Number:	16/32279[v3]
Responsible Officer:	Manager Financial Services	Minute Reference:	107/2023 (10/05/2023)
Date Adopted:	10/05/2023	Next Review Date:	May 2027

1. POLICY OBJECTIVES

Yorke Peninsula Council's (Council) Internal Financial Control Policy (Policy) establishes a framework to ensure:

- Risks relating to the stewardship of public resources are managed through effective internal controls.

- Managers are made aware of their responsibility for ensuring internal controls are established, documented, maintained and adhered to across Council and conveyed to 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. 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.

Council is committed to maintaining an efficient and effective internal control environment in accordance with Section 125 of the Local Government Act 1999 (the Act).

To meet these legislative requirements, Council has implemented a framework in compliance with the Better Practice Model – Financial Internal Control for South Australian Councils (BPM). The BPM identifies standard internal controls for each financial risk identified and Council is required to demonstrate that controls are effective, through a regular self-assessment process.

Assessing and reviewing officers will evaluate the appropriateness, design and effectiveness of controls on a scale from 1 – 5. Council's control effectiveness rating scale is provided in the table below.

Definitions of Control Effectiveness Ratings	
1. Ineffective	During the period, the control has not been implemented as described. Urgent management action is required to implement the described control processes.
2. Requires significant improvement	During the period, the control has been implemented as described, but with significant deficiencies in the consistency or effectiveness of implementation. Significant management action required to implement processes to improve the effectiveness of the control.
3. Partially effective	During the period, the control has been implemented as described, but with some deficiencies in the consistency and/or effectiveness in which it has been applied.
4. Majority effective	During the period, the control has been implemented as described and in the majority of cases has been consistently and/or effectively applied. There is potential to enhance the effectiveness of the control, but only with minor adjustments.
5. Effective	During the period, the control as described has been fully implemented and has in all cases has been consistently and/or effectively applied.

Where a control activity has been given an effectiveness rating of 3 or below by the assessing or reviewing officer, some level of explanation should be provided for the deficiency in the control activity, and consideration of establishing an action plan to address this. The purpose of the action plan is to document Council's intention to address the deficiency.

The Audit and Risk Committee is responsible for monitoring and reviewing the adequacy of this self-assessment process and internal controls framework in accordance with Section 126 of the Act.

Section 19 of the Local Government (Financial Management) Regulations 2011 (the Regulations) states an audit of internal controls must be carried out in accordance with Standards set out by the Auditing and Assurance Standards Board, established under the Australian Securities and Investment Commission Act 2001. The Regulations require the auditor to assess Internal Financial Controls of the Council, based on the criteria contained in the BPM.

3.   DEFINITIONS

Refer to Attachment 1.

4.   POLICY STATEMENT

4.1.   Risk Management Approach

Council will maintain an internal control framework, based on a proactive risk management culture. The risks identified in the framework have potential to prevent Council from meeting objectives or maximising opportunities. Council will identify risks 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

Council's Elected Members are responsible for approval of this Policy.

The Chief Executive Officer (CEO) is responsible for developing and maintaining an internal control framework.

The Audit and Risk Committee are responsible for review of any changes to this Policy and the internal controls framework to assess the effectiveness of the internal control system, in accordance with its Terms of Reference.

The CEO and Mayor must sign financial statements in regard to Internal Controls, as required by the Regulations.

The Corporate Management Team (CMT), 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 Council's internal control policies, procedures and practices and are expected to undertake training in controls affecting their work, while maintaining awareness of other control practices within Council.

The Business Improvement Officer may investigate, evaluate and report on internal financial controls. They assist the Audit and Risk Committee and CMT by providing findings and recommendations in respect of the activities reviewed.

4.3. Elements of an Internal Control Framework

Elements of an effective internal control framework include:

- Risk identification and assessment;
- Structure and culture of Council;
- Delegations of Authority;
- Policies and procedures;
- Trained and qualified employees;
- Information technology controls;
- Review process;
- Liaison with auditors and legal advisors;
- Senior Management compliance assurance.

### 4.4. Nature of Internal Controls

Policies and procedures which act as internal controls are either:

- Preventative – processes to avoid undesirable events from occurring;
- Directive – processes to encourage a desirable event to occur;
- Detective – processes to detect and correct undesirable events that have already occurred.

4.5. Risk Management Process

The process followed by Council in developing the framework and system appears below in diagrammatic form extracted from Australian/New Zealand Standard AS/NZS ISO31000:2018.

The Risk Management Process

AS/NZS ISO 31000:2009
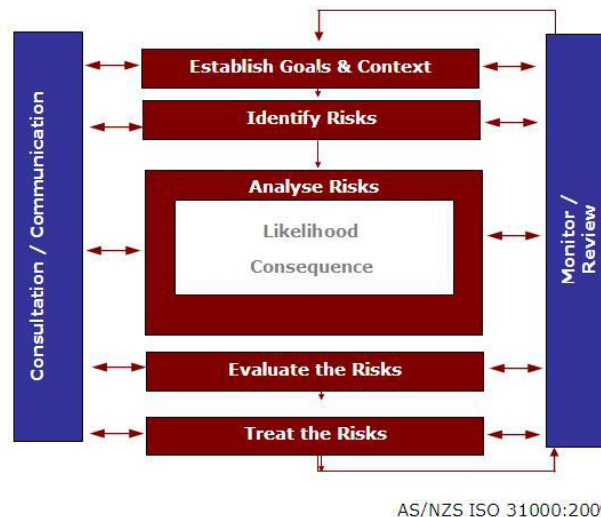
Council's risk management system involves a set of eight steps that have been developed, based upon best practice risk management principles, to provide a structured and consistent approach to the effective identification, analysis, evaluation, treatment, management, monitoring and reporting of risk.

- Communication and Consultation – authentic communication and consultation with internal and external stakeholders is critical to the successful identification and management of risk. Ensure Employees and Elected Members understand why actions are required. Effective risk management also requires a thorough understanding of the goals and context of Council to assist in establishing the assessment criteria for risk management.

- Define the Scope, Context and Criteria - as the risk management system is applied at different levels throughout the organisation it is important to consider risks in context with Council's objectives, values and resources, along with any potential to impact other activities and external stakeholders.

- Risk Identification – identify risks most likely to impact on the achievement of Council's objectives. The process of identifying the events that have the potential to impact upon the achievement of Council's objectives is critical in protecting the community, employees, assets and the organisation against potential losses and maximising opportunities.

- Risk Analysis – assess risks in terms of likelihood and consequence to identify the current risk level. Council will consider the risks identified and the effectiveness of any current controls utilising Council's Risk Matrix and Consequence tables.

- Risks Evaluation – risk priorities are determined based upon the outcomes of the risk analysis which determine whether risks are acceptable or unacceptable and document findings.

- Risk Treatment – one or more options for modifying the risks may be selected to reduce the risk of the consequence occurring or in the case of opportunities,

ensuring that the consequences are realised. When treating risks also consider discontinuing activity that generates risk, reducing likelihood of occurrence, reducing consequence of occurrence, transferring the risk or retaining the risk.

- Recording and Reporting – identified risks will be documented, monitored, reviewed, managed and reported via Council's Risk and Corrective Action Registers in order to build a risk profile for the Council.

- Monitoring and 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 Business Improvement Officer and the Audit and Risk Committee regularly.

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

This Policy will be reviewed and updated every four (4) years and as necessary in consideration of any changes to legislation and relevant standards, codes and guidelines. Elected Members and Employees will have the opportunity to participate in the review process.

Endorsement by the Audit and Risk Committee and Elected Members is required.

7. TRAINING

Council is committed to supporting Employees and Elected Members 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. RECORDS

Records shall be maintained as required by Council's Records Management Policy (PO063) and relevant legislation, standards, codes and guidelines

9. RELATED COUNCIL POLICIES/PROCEDURES AND DOCUMENTS

- PO148 Fraud Corruption Misconduct and Maladministration Prevention Policy
- PO091 Risk Management Policy
- PR150 Internal Control Audit Procedure
- Local Government Code of Conduct for Council Employees

10. REFERENCES AND LEGISLATION

- Local Government Act 1999
- Local Government (Financial Management) Regulations 2011
- Australian/ New Zealand Standard AS/ NZS ISO 31000:2018
- Better Practice Model – Financial Internal Control for South Australian Councils

- Australian Securities and Investment Commission Act 2001
- Local Government Association (LGA) Financial Sustainability Information Paper (FSIP) No. 21 – Internal Financial Controls
- LGA FSIP No. 18 – Financial Policies and Procedures

11.   COUNCIL DELEGATION

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

12.   VERSION HISTORY

Version No	Issue Date	Description of Change
1	14/12/2016	Legislative Update.
2	19/09/2019	Legislative Update.
3	10/05/2023	Full Revision.

ATTACHMENT 1: DEFINITIONS

Term/Reference	Definition
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 Chief Executive Officer and Directors.
Employee	Includes persons employed by Council, volunteers, trainees, work experience placements, casual personnel, agency personnel independent consultants and contractors and / or other authorised personnel offered access to the Council's resources.