

 City of Mount Gambier	COUNCIL POLICY INTERNAL CONTROLS POLICY		Version No:	2.0
			Issued:	19 September 2023
			Next Review:	September 2027

1. INTRODUCTION:

- **Effective Risk Management** - Internal control is a key factor in ensuring that the Council is effectively and efficiently managed and that its resources are not misused or misappropriated. These controls are integral to the effective risk management of Council activities and to ensure there are appropriate policies and procedures that promote the achievement of Council's goals and objectives.
- **Internal Control System** - Internal control is not limited to financial matters. An effective internal control environment will provide the means by which Council can successfully address and mitigate many risks. The internal control system should be designed to consider the financial, information, technological, human resource, political and legislative activities of Council.
- **Residual Risk** - In establishing and assessing internal control practices it is necessary to recognise that a certain level of risk will continue to exist. The purpose of internal control is to provide assurance that the internal risks faced by Council are minimised or contained to acceptable levels.

2. PURPOSE:

- **Legislation** - Consistent with the objectives and requirements of the Local Government Act 1999 and Local Government (Financial Management) Regulations 2011, Council has a responsibility to ensure that its activities are conducted in an efficient and risk effective manner that is compliant with its policies and procedures.
- **Framework** - This Policy describes the purpose and major factors to be considered in the development of an effective internal control framework. It provides a framework to assist in the development of policies, practices and procedures to collectively ensure that the financial and non-financial activities of Council are conducted in a proper manner.
- The purpose of internal control and this policy is to provide assurance that:
 - **Internal Risks** - The internal risks faced by Council are contained to acceptable levels;
 - **Management** - Council is effectively managed;
 - **Council Resources** - Council's resources are not misused or misappropriated;
 - **Policies and Procedures** - Council is managed efficiently and effectively, with appropriate policies and administrative procedures that promote the achievement of its goals and objectives; and
 - **Risk Management** - Effective risk management is integrated into Council operations.

3. SCOPE:

This Policy is applicable to all Council Staff.

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4. DEFINITIONS:

Key Term - Acronym	Definition
Internal Control	<p>Can be broadly defined as a process supported by the Organisation's policies, procedures and practices which collectively provide a reasonable assurance the achievement of objectives in the following categories:</p> <ul style="list-style-type: none"> • Effectiveness and efficiency of operations; • Reliability and accuracy of financial data; and • Compliance with policies, procedures, legislation and regulations.
Internal Control Framework	<p>Refers to policies, practices and procedures of Council which are designed to provide assurance that the activities and functions of council are carried out in an effective and efficient manner, with records being maintained accurately and the assets of council being protected and secured.</p>
Management	<p>Includes the General Managers, Managers and Co-ordinators.</p>
Employee	<p>Includes persons employed by the Council, volunteers, trainees, work experience placements, independent consultants and contractors and other authorised personnel offered access to the Council's resources.</p>

5. ROLES & RESPONSIBILITIES:

5.1 Council:

Council is responsible for the Internal Controls Policy of Council and for the adoption of this policy.

5.2 Chief Executive Officer:

The Chief Executive Officer is responsible for the development and implementation of the Internal Control Framework to ensure that the objectives of Council are achieved in an effective and efficient manner.

5.3 Management (as defined above):

Management are responsible for the development of adequate internal controls and their implementation, evaluation and revision on an ongoing basis in respect to all of the functions of Council under their control to ensure as far as practicable that:

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- **Reports** - Financial records and other relevant information databases completely and accurately reflect the actual operational activities and the timely preparation of reports;
- **Assets** - Are safeguarded from unauthorised use or disposal;
- **Irregularities** - Are prevented, or detected and corrected if they occur;
- **Legislative Compliance** – Is maintained; and
- **Risk Approach** - Management when developing the framework is encouraged to adopt a risk management approach when identifying and assessing Councils risks and applying a cost/benefit analysis in the development of internal controls.

5.4 Employees:

Employees are responsible for:

The day to day management of the Internal Control Framework in their respective work areas.

- **Duties** - Conducting their duties in accordance with Council policies, operating guidelines and practices of Council.
- **Reporting** – Reporting to management instances where they consider that internal control procedures are inadequate or are not being met.
- **Best Practice** - Promoting a best practice approach in support of effective business practices and properly functioning controls.
- **Assessments and Reviews** - Conducting assessments and reviews of internal controls and entering the results of these into relevant internal control framework databases.

5.5 Audit and Risk Committee:

- The Audit and Risk Committee is responsible for the monitoring and review of the effectiveness of Council's internal controls and risk management systems.
- Where appropriate the Committee may recommend and provide feedback on the statements to be included in the annual report concerning internal controls and risk management.
- In addition, if required, the Audit and Risk Committee should also raise concerns with Council Management staff and Council.

5.6 External Auditor:

The external auditor must give an audit opinion on the audited financial statements of Council. The financial statement must also comply with accounting standards and principles along with information as prescribed in the Local Government (Financial Management) Regulations 2011.

Section 129 of the Local Government Act 1999 and regulation 19(3) of the Local Government (Financial Management) Regulations 2011 provide that the auditor in addition to the above must examine the internal controls exercised by the Council. These controls are in relation to the following:

- **Money** - Receipt, expenditure and investment of money;
- **Property** - The acquisition and disposal of property; and
- **Liabilities** - The incurring of liabilities'.

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The external auditor will provide an audit opinion as to whether the controls are sufficient to provide reasonable assurance that the financial transactions of the council have been conducted properly and in accordance with law.

6. INTERNAL CONTROL ENVIRONMENT:

- 6.1 Strategies to maintain sound internal controls are based on risk analysis of the internal operations of Council, with a focus on the key elements of:
- **Organisation Environment** - The structure and broad policies adopted to manage the organisation and assist employees to carry out their roles and functions.
 - **Information System** - The methods and procedures used to collect collate and distribute financial and non-financial information.
 - **Processing System** - The mechanisms in place to ensure that transactions are captured checked and verified. The use of technology with automated controls and strengthens the internal control environment.
- 6.2 **Approach** - An internal control framework should be based on a pro-active risk management approach that includes regular review and identification of the risks that exist within the Council operations. Council will maintain an effective Risk Management Framework with internal controls included as an integral part of that framework. An appropriate internal control measure is applied to each key activity in order to reduce the inherent risk of that activity to an acceptable level.
- 6.3 **Risks** - Risks should be identified and assessed, and then an appropriate internal control framework developed and implemented to reduce the potential impact of those risks. This should include an analysis to assess whether the cost of a new or modified control is likely to provide a net positive benefit.
- 6.4 **Risk Assessment** - In establishing and assessing internal control practices, it is necessary to recognise that in practical terms a certain level of risk will always exist within organisations.
- 6.5 Controls can be allocated to three categories:
- **Preventative** - Processes put in place to avoid undesirable events from occurring.
 - **Detective** - Processes put in place to detect and subsequently correct undesirable events that have already occurred.
 - **Directive** – Processes put in place to encourage a desirable event to occur.

7. POLICY PRINCIPLES

The Principles guiding a strong Internal Controls environment include:

- **Existence** - Assets and liabilities of the entity exist at a given date;
- **Valuation** - Assets or liabilities are recorded at the appropriate carrying value;
- **Occurrence** - Recorded transactions or other events occurred during the relevant period;
- **Authorisation** - Control is established at source and only properly authorised transactions are processed;
- **Segregation of duties** - Responsibility for executing a transaction, recording the transaction and maintaining custody of the assets and/or liabilities resulting from a transaction should be assigned to different individuals or departments;
- **Completeness** - There are no unrecorded assets, liabilities, transactions or other events or undisclosed items;

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- **Measurement / Recording** - A transaction or event is recorded at the proper amount and revenue or expense is allocated to the proper period (facilitated by the use of IT data integrity); and
- **Disclosure** - Particular components of the financial report are properly disclosed, classified and described.

8. INTERNAL CONTROLS ASSESSMENT:

- 8.1 **Internal Financial Controls Self-Assessment** - A full review will be undertaken every 2 years.
- 8.2 **Interim/Ad Hoc Review** - A review will be undertaken when a specific event such as the creation or cessation of a service is undertaken with a report to be taken to Council's Executive and the Audit and Risk Committee.

9. TRAINING / EDUCATION:

- 9.1 It is the responsibility of Council Administration to provide adequate training and support for staff.
- 9.2 Training will be provided to staff as part of the induction process and be refreshed as part of the two yearly review process.

10. REPORTING:

- 10.1 **Financial Services Department** - The Manager Financial Services will present a report outlining the results of the review to the Executive Leadership Team and Audit and Risk Committee. The Manager will also monitor progress of action plans and regularly report to the Executive Leadership Team and the Audit and Risk Committee.
- 10.2 **Audit and Risk Committee** - The Audit and Risk Committee will receive progress reporting of actions taken by the Administration in relation to required control improvements. The Audit and Risk Committee will monitor the scope of the assessment and the recommended improvements to ensure best practice, accountability and efficient, effective and compliant systems

11. REVIEW:

This Policy will be reviewed in four years; or

- The frequency dictated in legislation; or
- Earlier in the event of changes to legislation or related policies and procedures; or
- If deemed necessary by the General Manager, Corporate and Regulatory Services.

12. ACCESS TO THE POLICY

This Policy will be available for inspection at Council's principal office during ordinary business hours and on the Council's website www.mountgambier.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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File Reference:	AF18/53
Applicable Legislation:	Local Government Act 1999 Sections 125, 126, 129, and 130. Local Government (Financial Management) Regulations 2011 Regulations 4, 10A, and 19 (3)
Reference: Strategic Plan – 2020-2024	Goal 3, Strategic Objective Our Diverse Economy
Related Policies:	A900 Asset Management Policy P420 Procurement and Disposal of Land and Assets Policy B300 Budget Framework Policy Risk Management Policy
Related Procedures:	Better Practice Model - Financial Internal Control for South Australian Councils (SALGFMG)

DOCUMENT DETAILS

Responsibility:	General Manager Corporate and Regulatory Services
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