

## POLICY DOCUMENT

**7.63.5**

<b>Policy Name</b>	Internal Financial Control
<b>Policy No.</b>	7.63.5
<b>Version:</b>	1
<b>Strategic Reference:</b>	3.3 A Council that engages openly and productively with its community and stakeholders
<b>Responsible Department:</b>	Corporate & Community Services
<b>Policy Adopted:</b>	15 July 2019
<b>Last revised date:</b>	15 May 2017
<b>Minute reference:</b>	CO 19/126
<b>Next review date:</b>	This policy shall be reviewed by the City of Port Lincoln every two years, or on significant change to legislation or aspects included within this policy.
<b>Applicable Legislation:</b>	Local Government Act 1999 - Sections 125, 126, 129 & 130 Local Government (Financial Management) Regulations 2011 r14 (e)
<b>Related Policies:</b>	
<b>Related Documents:</b>	Better Practice Model—Internal Financial Controls Australian/New Zealand Standard AS/NZS ISO 31000:2009

### 1. INTRODUCTION

Internal control is part of Council’s corporate governance framework and covers areas such as strategic management, business development, project management, finance, etc. 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.

The financial component of internal controls 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. Council is committed to maintaining an effective Internal Control environment.

### 2. POLICY OBJECTIVES

Council’s objectives of this Policy are:

- a) Risks relating to the stewardship of public resources are adequately managed through effective internal controls.
- b) A framework for an effective internal control system which conveys to managers that they are responsible for ensuring that internal controls are established, documented,

maintained and adhered to across the council and to all employees that they are responsible for adhering to those internal controls.

- c) To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency.

### **3. POLICY STATEMENTS**

#### **3.1. *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. One 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 and mitigate identified risks. Council will develop a culture that emphasises integrity, ethical values and competence.

#### **3.2. *Roles and Responsibilities***

The Council is responsible for approval of the Internal Control Policy and the Chief Executive Officer 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 and Risk Committee. The Chief Executive Officer and principal member of Council must also sign the financial statements in regard to internal controls as required by Local Government (Financial Management) Regulations 2011 r14. The Executive 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.

#### **3.3. *Elements of an Internal Control Framework***

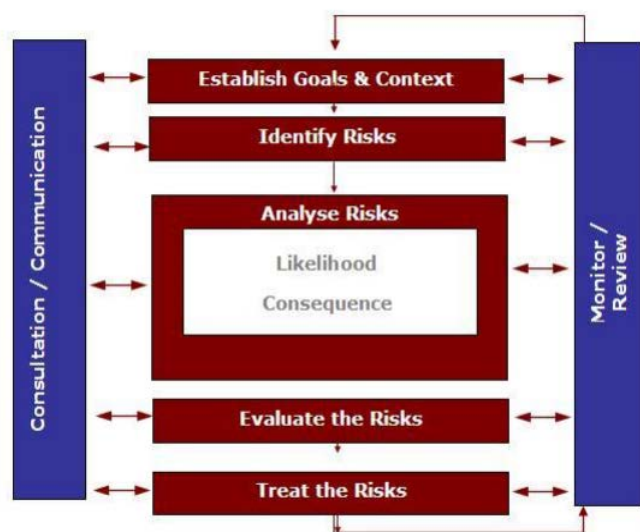
The essential elements of an effective internal control framework are:

- 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;
- Executive compliance assurance;
- Risk identification and assessment.

#### **3.4. *The 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



AS/NZS ISO 31000:2009

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 Leadership Group and the Audit and Risk Committee at regular intervals.

#### 4. DATABASE OF INTERNAL CONTROLS

The database of internal financial controls will be reviewed at least every twelve months to ensure all controls are current and appropriate and the Leadership Group and the Audit and Risk Committee will be informed of the outcome of each review and updated regularly on progress with action plans identified during the reviews.

**5. SUPPORT WITH DEVELOPMENT OF A RISK MANAGEMENT SYSTEM**

To assist in the ongoing improvement of a risk management system the *Internal Financial Controls* should be reviewed within the relevant timeframe or as required, to identify the current recommended risk management database of internal controls and supporting documentation.

**6. RELEVANT DELEGATED POWERS AND DUTIES**

Any actions or decisions made regarding this policy will be enacted upon as per Council's current Delegations Register.