



Internal Financial Control Policy

Classification:	Council Policy
Version Number:	3
Review Frequency:	Once in the term of Council
Last Reviewed:	October 2023
Review Due:	October 2027
Responsible Officer:	Chief Executive Officer
Applicable Legislation:	Local Government Act Sections 125, 126, 129 and 130 Local Government (Financial Management) Regulations 2011, Sections 10A 14 and 19. Australian/ New Zealand Standard AS/NZS 31000:2009 Local Government (Accountability Framework) Amendment Act 2009- Schedule 1 and 2.
Related Policies/Procedures/Documents:	<ul style="list-style-type: none"> • Delegations Register • Risk Management Policy/ Framework • Better Practice Model – Internal Financial Controls • Internal Financial Controls Manual • Risk Registers • Council Policy Framework • LGA: Financial Sustainability Information Paper 21- Internal Financial Controls

1. PURPOSE:

The purpose of this policy is to ensure that the Council is effectively managed and that its resources are not misused or misappropriated. This policy forms an integral part of council's risk management and corporate governance framework

and ensures a system of efficient and effective management, with appropriate policies and procedures that promote the achievement of its goals and objectives.

The objectives of this policy are:

- To manage risks relating to the stewardship of public resources are adequately managed through effective internal controls.
- To implement a framework for an effective internal financial control system which conveys to Directors that they are responsible for ensuring that internal financial controls are established, documented, maintained and adhered to across the Council and to all employees that they are responsible for adhere
- To ensure the propriety of transactions, information integrity, compliance with legislation and achievement of council's objectives through operational efficiency.
- To ensure accountability to the Council and the community in the provision of services.
- To formulate Council's checklist of Accounting Control procedures throughout the organisation.
- To ensure a risk-based approach.

2. LEGISLATIVE CONTEXT:

2.1 Section 125 of the Local Government Act 1999 (the Act) requires that:

- 1) A Council must ensure that appropriate policies, practices, and procedures of internal control are implemented and maintained in order to assist the council carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard Councils assets, and to secure (as far as possible) the accuracy and reliability of council records.
- 2) The policies, practices, and procedures of internal financial control under subsection (1) must be in accordance with a standard or document (such as a model relating to financial controls) adopted by the regulations.

As part of the review of the Local Government Act and subordinate regulations, commencing 6 January 2022, regulation 10A has been inserted into the Local Government (Financial Management) Regulations 2011.

The regulation inserts that, for the purposes of section 125 (2) of the Local Government Act, the policies, practices, and procedures of internal financial control of a Council must be in accordance with the Better Practice Model – Internal Financial Controls.

2.2 Section 126 of the Act states that a council must have an Audit Committee and its functions include the review of the internal control environment.

2.3 Section 129 of the Act requires the auditor to audit, and to provide audit opinion of the controls.

- 2.4 Section 130 of the Act states that the Chief Executive Officer must provide assistance to the auditor in the conduct of their duties.
- 2.5 Regulation 19(2) of the Local Government (Financial Management) Regulations 2011 states that the auditor must give due consideration to council's policies, practices and procedures of internal control under in forming an opinion on the financial accounts of council under Section 129(3)(a) of the Act.

3. SCOPE:

Internal control is part of Council's Risk Framework and covers such areas such as strategic management, project management, finance etc.

This policy covers procedures to mitigate risks and provide reasonable assurance that operations are efficient and effective, assets are safeguarded, legislation and Council policies are complied with and financial reporting is accurate and reliable.

A complete risk management and Risk Framework for the financial component of internal controls are required to ensure Council resources are used prudently and in an efficient, effective, and economical manner. These include accounts payable, payroll, budgeting, management reporting, banking, purchasing, and contracting. Financial internal controls are critical to effective risk management of Council's operating and promote the achievement of its goals and objectives.

Council is committed to maintaining an effective financial internal control environment.

4. DEFINITIONS:

Internal Financial Control	The process that assists council in addressing the risk of fraud and error, improves the reliability of financial reporting and compliance with laws, regulations and policies.
Better Practice Model- Internal financial controls (BPM)	The framework prepared by the South Australian Local Government Financial Management Group (SALGFMG) and regulated within the Local Government (Financial Management) Regulations 2011. This framework provides guidance which councils can use alongside their existing risk framework to aid in developing a risk-based approach to the identification and assessment of financial risks and internal controls.
Risk Management Framework	A layered structure that underpins and informs the financial reporting policies and procedures for council.
Risk Team	The Risk team consists of Chief Executive Officer, Directors, Senior Officers and other officers as required

5. PRINCIPLES:

- 5.1 Financial internal controls are critical to effective risk management of a Council's operations and promote the achievement of its goals and objectives.
- 5.2 Council will maintain an internal financial control framework which will be based upon a proactive risk management culture. The types of risk identified

in the framework will be those which may prevent council from meeting its objectives or not maximising its opportunities.

6. RISK MANAGEMENT APPROACH

Council will maintain a risk management approach, consistent with the Risk Management Framework.

7. ROLES AND RESPONSIBILITIES:

7.1 Council Members

Council Members are responsible for the approval of this policy.

7.2 Audit and Risk Committee:

The Audit and Risk Committee provide independent review and advice to council in relation to the administration's approach to corporate governance matters including internal controls.

The Audit and Risk Committee is responsible for reviewing action plans and progress reports on the implementation of the Internal Controls Framework.

7.3 Chief Executive Officer (CEO):

The CEO is accountable to the elected members for the development and implementation of a financial internal control framework and appropriate systems to achieve accountability and integrity.

7.4 Risk Team

Risk Team is responsible for adopting a risk management approach to identifying and assessing risks and apply cost/ benefit analysis in the development of internal controls including:

- Financial records and other relevant 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;
- Staff have adequate training to completely fulfil their responsibilities;
- To promote a best practice approach in support of effective business practices, accountability and properly functioning controls.

7.5 Employees:

Council employees are responsible for conducting their duties in accordance with all internal financial control policies, manuals, procedures and practices of Council. They are also responsible for reporting to management instances where they consider that internal control procedures are inadequate or are not being met. Employees will participate in the internal implementation, checking and investigating process.

7.6 External Auditor:

External auditor is responsible for giving an audit opinion of the audited financial statements of Council. The external auditor is responsible under Section 129 of the Local Government Act 1999 to provide an audit opinion on Councils internal controls and whether they have been applied appropriately for the entire financial year.

8. ELEMENTS OF 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 employees:
- Information technology controls:
- Review process e.g. internal audit:
- Risk identification and assessment:
- Liaison with auditor and legal advisors:
- Senior Management compliance assurance.

9. DATABASE OF INTERNAL CONTROLS: FINANCIAL RISK REGISTER:

9.1 *Risk categories and associated business processes:*

The financial risk register has been separated into several risk categories and business processes, based largely on standard Statement of Financial Position and Statement of Comprehensive Income account classifications and/ or key business functions.

9.2. *Review:*

The financial risk register, as per the Better Practice Model- Internal Financial Controls will be reviewed on 1, 2 or 3 years, based on the level of the residual risks associated with the business process:

Risk	Review Cycle
Extreme	Annually
High	Biennially
Medium	Triennially
Low	Triennially

The review will be undertaken by the Risk team in accordance with the Risk Management Framework. The Audit and Risk Committee will be updated regularly on the progress of the action plans identified during the reviews.

10. INTERNAL AUDIT

Administration will maintain a schedule of planned and documented internal audits under the direction of a designated officer to:

- Ensure activities comply with planned arrangements
- Determine the effectiveness of the internal business system and
- Provide a basis for continual improvement.

Internal Audit Control mechanisms that may need to be undertaken, include the following:

- Establishment or review of whether financial transactions have been recorded accurately, completely, and in accordance with organisational policies
- Assessment of whether internal financial controls are operating as intended and documented.

Internal Audits reports will be provided to the Risk Team and then to the Audit and Risk Committee on the activities and findings of the internal audits.

11. INTERNAL FINANCIAL CONTROLS MANUAL

The Internal Financial Controls Manual has been prepared to strongly align to the Better Practice Manual – Internal Financial Controls.

To comply with this policy Council has and will continue to separately develop a number of specific procedures that staff are required to follow. These procedures will be documented to in the Internal Financial Controls Manual.

The manual will be reviewed in accordance with Council's Policy Framework.

12. AVAILABILITY OF THE POLICY:

This policy will be available for inspection at the Council's principal office, 29 Holland Street Kingston SE, during ordinary business hours and on Council's website: www.kingstondc.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon such payment of the fee set by Council.