

# POLICY

<b>Policy Name</b>	Internal Control Policy
<b>Policy Category</b>	Statutory
<b>Department / Officer</b>	Office of CEO / Group Manager Governance and Finance
<b>Date Adopted</b>	23 September 2013
<b>Date/s Reviewed</b>	August 2016; 25 February 2019; 29 May 2023
<b>Review Frequency</b>	Every Three Years
<b>Strategic Plan Reference</b>	Aspiration 6 – We are a financially sustainable and well-governed organisation Priority – Minimise risk and ensure continuity of critical business functions. Priority – Strengthen strategic, governance and communication frameworks.
<b>Attachments</b>	Nil

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## 1. Purpose

The purpose of this policy is to:

- Establish a sound system of internal controls to ensure that resources are allocated in the most appropriate manner to allow operational and financial objectives of Council to be met and to comply with the accountability provisions of the *Local Government Act 1999*; and
- Provide assurance that the risks faced by Council are minimised or reduced to acceptable levels by:
  - adequately managing risks relating to the stewardship of public resources through effective internal controls.
  - maintaining an effective internal control system framework 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.
  - ensuring the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency.

## 2. Scope

This Policy focuses on the financial component of internal controls 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 applies to Council Members and Council Employees of the City of Victor Harbor.

### 3. Policy Statement (Summary)

The City of Victor Harbor supports Internal Control measures through the implementation of the 'Better Practice Model – Financial Internal Control.'

Council is committed to ensuring that as a minimum the "Core" Internal Control measures are implemented and are adequate and efficient in reducing risk, misuse or misappropriation of resources and that staff remain diligent in adhering to the controls when undertaking operational activities.

### 4. Legislation and Compliance

*Section 125 of the Local Government Act 1999* states a Council must ensure that appropriate policies, practices, and procedures of internal control are implemented and maintained.

*Section 126 (4) (c) of the Local Government Act 1999* requires the function of the Audit Committee include reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of council on a regular basis.

*Section 129 (1) (b) of the Local Government Act 1999* states the auditor of a Council must undertake an audit of the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

*Regulation 14 (e) of the Local Government (Financial Management) Regulations 2011* states internal controls implemented by the Council provide a reasonable assurance that its financial records are complete, accurate and reliable and were effective throughout the financial year.

### 5. Definitions

**External Audit** means an annual independent review conducted by an external auditor of the financial records, transactions, and internal controls of the Council's operations to form an opinion as to whether Council has materially complied with the scope of matters prescribed under the *Local Government Act 1999*.

**Internal Audit** function can contribute to corporate governance by providing the City of Victor Harbor and the Audit Committee with independent reviews of and suggestions for, improving the design and operation of the organisation and includes (but not limited to):

- Financial and non-financial control environment
- Processes for identifying and monitoring risks.
- Governance processes

Internal Audit is an essential element in the control environment of the City of Victor Harbor and contributes to more effective risk management.

**Internal Control** means “a process effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations; and
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

**Principal Member** means the Mayor of the City of Victor Harbor

**Senior Management Team** means the Chief Executive Officer, Director Corporate and Customer Service, Director Environment and Infrastructure and Director Community and Development and Group Manager Governance and Finance.

## 6. Policy Content

### 6.1 Internal Control Environment

Council promotes the establishment and development of an effective internal control environment that reflects the ethics, integrity, and values of the Council. An effective and transparent internal control environment should focus on the following key areas:

- Integrity and ethical values
- Management’s philosophy and operating style
- Organisation Structure
- Performance measures
- Policies and procedures including use of IT.
- Human resources policy
- Audit Practices

### 6.2 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; and
- Regular reporting to key stakeholders

### 6.3 Internal Financial Controls

Council will achieve its objectives by developing internal controls that:

- Reflect a coordinated and systematic approach to risk management.
- Be embraced by management and the responsible officers within the organisation.

- Be consistently recorded within a whole-of-organisation framework.
- Have an associated plan of action to ensure that the controls are correctly implemented.
- Include procedures for reporting immediately any significant control failings or weaknesses that are identified together with details of corrective action being undertaken.
- Be subject to periodic review at a frequency appropriate for each control.
- Where possible – be embedded in daily procedure documents.
- Detect and correct irregularities.
- Safeguard Council assets against loss or misuse.
- Prevent the misuse or misappropriation of resources.
- Ensure reliability of both financial and non-financial reporting.
- Comply with legislation and Council Policies.
- Promote the effectiveness and operational efficiency of Council.

#### **6.4 Review of Council's Internal Financial Controls**

Council will review its internal financial controls on a regular basis.

The objective of the review is to identify, evaluate and document existing internal financial controls and recommend changes and/or new internal controls where necessary (not an audit of past transactions).

The review should:

- Examine current procedures.
- Identify key risks threatening the achievement of Council's objectives.
- Identify existing internal financial controls.
- Assess current controls for effectiveness.
- Identify any new controls needed as well as existing controls requiring adjustment.
- Identify relevant officers for each internal control.

#### **6.5 Risk Management Approach**

The council will maintain an internal controls framework, which is based upon an initiative-taking risk management culture. The types of risks identified in the framework should be those which may prevent the council from meeting its objectives or not maximising its opportunities.

One of the risk areas covered by Council is financial management, for which internal controls should 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.

#### **6.6 Roles and Responsibilities**

##### **6.6.1 Council**

Council is responsible for endorsing the Internal Control Policy and providing sufficient resources to its implementation.

##### **6.6.2 Audit Committee**

The Audit Committee provides independent review and advice to Council in relation to the organisation's approach to corporate governance matters, financial matters, including internal controls.

#### **6.6.2 Chief Executive Officer and Principal Member**

The Chief Executive Officer and Principal Member of Council must sign the financial statements regarding internal controls as required by Regulation 14 of the *Local Government (Financial Management) Regulations 2011*.

#### **6.6.3 Chief Executive Officer**

The Chief Executive Officer is responsible for developing and maintaining an internal control framework, which ensures the Council objectives are achieved efficiently and effectively.

#### **6.6.2 Senior Management Team**

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

#### **6.6.3 Council Employees**

Council employees are responsible for conducting their duties in accordance with internal control policies, procedures, and practices of Council. They are also responsible for reporting to the Senior Management Team instances where they consider that internal control procedures are inadequate or are not being met.

## **7. Risk Management**

Council's approach to internal control is based on a pro-active, transparent and risk aware culture. Internal control measures will not remove all risk but aim to reduce the likelihood and consequence of adverse events.

### **7.1 The Risk Management Process**

The risk management process involves the systematic application of policies, procedures, and practices to the activities of communicating and consulting, establishing the context and assessing, treating, monitoring, reviewing, recording, and reporting risk and is outlined in the International Standard ISO 31000:2018 – Risk Management Guidelines.

## **8. Implementation/Delegations**

The Chief Executive Officer is delegated authority to implement this Policy and may sub-delegate, as necessary.

## **9. Related Documents**

Better Practice Model – Financial Internal Control for South Australian Councils  
Internal Control Manual  
Internal Control (Finance Management) Procedure

Risk Management Policy and Framework

## 10. Availability of Policy

This policy is available on Council's website at [www.victor.sa.gov.au](http://www.victor.sa.gov.au).