DISTRICT COUNCIL OF Streaky Bay
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INTERNAL FINANCIAL CONTROL POLICY

Policy No: **DCSB-FM-07.03**	Approved on: **November 2022**	Administered by: **General Manager of Business**
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Classification: **Financial Management**		
Strategic Plan link: Ensure compliance of relevant Council policies and procedures with legislative requirements.		
References and related Policies, Procedures and Forms: *Local Government Act 1999* Local Government (Financial Management) Regulations 2011 Better Practice Model – Internal Financial Controls for South Australian Councils (SALGFMG) DCSB-G-09.05 Fraud, Corruption, Misconduct and Maladministration Prevention Policy DCSB-SM-18.00 Risk Management Framework Australian/New Zealand Standard AS/NZS ISO 31000:2018		

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1. Introduction

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

Under Section 125 of the Local Government Act 1999 Council is required to ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to:

- assist in carrying out its activities in an efficient and orderly manner
- ensure adherence to management policies
- safeguard Council's assets and resources, and
- secure (as far as possible) the accuracy and reliability of Council records.

Internal control is a fundamental mechanism of organisations to provide a level of assurance that the organisation is being run effectively. The system of internal control extends beyond the matters which relate directly to the functions of the accounting systems, and relates to every aspect of Council's operations.

The external auditor places a significant degree of reliance on internal controls when determining whether the accounts of the Council present a fair and true view of the transactions of the business for the relevant time frame. Section 129 of the Local Government Act 1999 requires that the external auditor is required to provide an audit opinion as to whether the controls used by Council are sufficient to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with the law.

This policy outlines the relevant steps that must be taken to comply with the Act and Regulations.

2. Definition

Internal control is the plan of the organisation and methodology adopted by the management of the Council to assist in achieving the Council's objective of ensuring, as far as is practicable, the orderly and efficient conduct of the operations of the Council. This includes the adherence to management policies, the safeguarding of assets and resources, the prevention and detection of fraud and error, the adherence to legislation, the accuracy and completeness of accounting records and the timely preparation of reliable financial and performance information.

3. Policy Statement

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. The first 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.

Council will develop a culture that emphasises integrity, ethical values and competence.

4. Roles and Responsibilities

The Local Government Act 1999 provides, in Chapter 7 – Section 99 - that the CEO is responsible for:

- the provision of information to Council to enable the Council to assess performance against strategic management plans;
- ensuring that the assets and resources of the Council are properly managed and maintained; and;
- ensuring that all necessary records are kept.

The Local Government Act 1999 provides, in Chapter 8 – Section 125 - that a Council must ensure that it has appropriate policies practices and procedures in place so that the functions and activities of the Council can be carried out efficiently and effectively, including safeguarding of the Council's assets and resources, the accuracy and reliability of Council records and adherence to management policies.

Council's Audit Committee has an important review role in assisting Council to meet its statutory obligations in this area.

The Elected Body must:

- ensure that an internal financial control framework is implemented by the CEO
- adopt and regularly review relevant policies, including the Fraud, Corruption, Misconduct and Maladministration Prevention policy.

The CEO and Executive Team must:

- develop appropriate processes and procedures to ensure an effective system of internal control;
- ensure that the assets and resources of the Council are safeguarded from loss or improper use;
- ensure relevant records are created and maintained; and
- advise the Elected Body that a system of internal control is in place.

5. Elements of an Internal Control Framework

There are effectively two types of controls:

Organisational Controls

The objectives of organisational controls are to promote operational efficiency and encourage adherence to management policies in all areas of Council's operations. Organisational and accounting controls are not mutually exclusive. In evaluating the organisational structure of Council, consideration should be given as to whether that structure is conducive to effective control

and whether individual employees are aware of their authority and responsibilities. The following conditions are essential in treating this environment:

- The corporate organisation is appropriate for the size and scope of Council activities.
- Published organisational charts show reporting lines and responsibilities.
- Authority levels and responsibilities are delineated. All transactions should require authorisation or approval by an appropriate responsible officer. The limits for these responsibilities should be specified and regularly reviewed.
- Important policies and procedures are effectively communicated to appropriate staff levels.
- Job performance is periodically evaluated and reviewed annually with each employee.

All internal financial control systems should incorporate these essential characteristics. However, the methods by which they are implemented will vary depending on the types of assets involved and the nature and complexity of Council's operations.

Examples of organisational controls include:

- safe work practices for employees
- proper recruitment, selection, and induction of new employees
- protection of confidential information
- procedures for declaring a conflict of interest
- sound delegations of authority for operation of the Council
- a sound basis of risk identification assessment and avoidance

Accounting Controls

The objectives of accounting controls are the safeguarding of assets and resources and the production of reliable financial information. The general characteristics of a satisfactory system of accounting internal control include:

- proper segregation of functional responsibilities
- a system of authorisation, recording and procedures adequate to provide accounting control of assets, liabilities, revenues and expenses
- sound practices in the performance of duties and functions by each of Council's departments
- procedures to ensure those persons have capabilities commensurate with responsibilities; and
- appropriate information technology protocols and controls

All internal control systems should incorporate these essential characteristics; however the methods by which they are implemented will vary depending on the types of assets involved and the nature and complexity of Council's operations.

Council maintains a system of internal financial control mechanisms across various elements as follows:

5.1 Segregation of duties

One of the prime means of control is the separation of those responsibilities or duties which would, if combined, enable an individual to record, process and complete a transaction or action without oversight or reference to another officer. Segregation reduces the risk of intentional manipulation and error and increases the element of checking. The functions of authorisation, execution, custody, and recording should be separated wherever possible and practicable to do so. This is of particular importance for transactions/responsibilities dealing with high value resources.

5.2 Supervision

Any system of internal financial controls should include the supervision by responsible officers of day-to-day transactions, the recording thereof and oversight of control systems.

5.3 Systems development, implementation, and maintenance

System development and maintenance controls are required to ensure that effective application controls are included in systems and the integrity of those application controls is preserved after the system has been implemented.

5.4 Application controls

Application controls are controls over the capture and processing of accounting information. These controls are only effective if appropriate general controls are in place.

Application controls include:

- Data capture systems which ensure the complete, valid, and accurate capture of data by Council's accounting and management systems
- Data processing controls which maintain the integrity and correctness of transactions as they are processed through accounting and management systems. They ensure data is not lost, corrupted, or destroyed at any points at which it is created, processed or transferred.

5.5 Security of data

Controls should exist to ensure that once data is created, processed, and recorded it remains correct until deleted or amended by authorised processing. Password controls is important in the security of data.

6. Internal audit

Council maintains a system 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

There are a range of audit control mechanisms that may need to be undertaken, including 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 can be conducted by designated personnel, who are experienced officers and are independent of direct responsibility for the activities being audited.

Internal audits will be conducted on an ongoing basis with regular reports to be provided to the Audit Committee on the activities and findings of the internal audits.

An internal audit plan should be prepared annually and presented to the Audit Committee to review internal controls, although an audit may also be conducted if:

- Established processes are demonstrating a state of instability
- Significant changes have been made in functional areas; or
- Safety, performance, and dependability of the service are in, or are suspected to be in, jeopardy due to non-conformances The general characteristics of a sound system of accounting internal audit include:
- Proper segregation of functional responsibilities and reporting arrangements
- A system of authorisation, recording and procedures adequate to provide accounting control of assets, liabilities, revenues, and expenses
- Sound practices in the performance of duties and functions by each work area
- Procedures to ensure those persons have capabilities commensurate with their responsibilities.

7. External audit

Council requires a comprehensive external audit by suitably qualified Auditors.

It is an expectation that the auditors fulfil the basic legislative and Auditing Standards requirements in respect to financial position and financial statements of Council, and the assessment of Council's internal financial controls.

8. Procedures

To comply with this policy Council has and will continue to develop specific procedures relating to Internal Financial Controls that staff are required to follow.

9. Records Management

All records shall be kept and disposed of in accordance with councils, Records Management Policy & Procedure, the current General Disposal Schedule.

10. Further Information and Policy Availability

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's internet site: www.streakybay.sa.gov.au

District Council of Streaky Bay
29 Alfred Terrace
Streaky Bay SA 5680

Copies will be provided to interested parties upon request.
Email dcstreaky@streakybay.sa.gov.au