

INTERNAL CONTROL POLICY	
Reference Number	#743236
Responsible Business Unit	Organisational Services – Finance
Responsible Officer	General Manager Corporate Services
Legislation	Section 125 Local Government Act 1999 Section 129 Local Government Act 1999
Relevant Delegations	Chief Executive Officer General Manager Corporate Services
Related Policies Management Guidelines Frameworks	Best Practice Model – Financial Internal Controls for SA Councils
Link to Strategic Plan	Objective 5.1 - Ensuring Delivery
Council resolution	52.2
Date Adopted	14 March 2017 (Audit Committee 1 March 2017)
Review Date	2021
Previous Revisions	332.3.7 – 10 December 2007

## POLICY STATEMENT

Internal control is part of the Councils corporate governance framework and covers areas including 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.

Internal controls are also the plans and/or programs implemented to safeguard Council from potential fraudulent activity.

The Council is committed to maintaining an effective Internal Control environment.

## OBJECTIVES

The Councils objectives for this policy are:

- Risks relating to the stewardship of public resources are adequately managed through effective internal controls to ensure the likelihood of the residual risk occurring and the impact of the risk are within tolerable limits.
- A framework for effective internal control systems which convey 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 are responsible for adhering to those controls
- To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency.

## SCOPE

This policy applies to Elected Members and all employees of the Rural City of Murray Bridge.

## PRINCIPLES

The system of internal controls extends beyond the matters which relate directly to the functions of the accounting systems and relates to every aspect of the Council's operations.

The essential elements of an effective internal control framework are:

- Structure and culture of the Council
- Delegations of Authority
- Policies and Procedures
- Trained and properly qualified staff
- Review process
- IT Controls
- Liaison with auditor and legal advisors
- Senior management compliance assurance
- Risk identification and assessment

The Rural City of Murray Bridge recognises the importance of maintaining effective internal controls through policies and procedures. Such policies are established to provide reasonable assurance that its objectives are achieved.

The external auditor places a significant degree of reliance in internal controls when determining whether the accounting records present a fair and true view of transactions of the business for the relevant time frame.

## IMPLEMENTATION

### **Risk Management**

Council will maintain an internal control framework which will be based upon a proactive risk management culture. The type of risks identified in the framework will be those which may prevent Council from meeting its objectives and maximising its opportunities. It is recognised that risks cannot be eliminated, however the internal controls applied should reduce the likelihood and impact of the risk occurring to within tolerable limits.

Council has adopted the "Best Practice Model – Financial Internal Controls for SA Councils" framework for the assessment of internal controls.

### **Role of Elected Members, Chief Executive Officer and Management**

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

- The provision of information to Council to assess the performance against the strategic management plan
- Ensuring the assets and resources of the Council are properly managed and maintained; and
- Ensuring all necessary records are kept

The elected body must:

- Ensure that an internal control framework is implemented by the Chief Executive Officer.

The Chief Executive Officer and management 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 that relevant records are created and maintained; and
- Advise the Elected Body that a system of internal control is not in place.

## Control Types

There are effectively two types of controls:

- Organisational controls
- Accounting controls

The objective of organisational controls is to promote operational efficiency and encourage adherence to management policies in all areas and departments of Council's operations. These controls have little impact on the financial records.

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

The objectives of accounting controls are to safeguard assets and ensure the production of reliable financial information. The general characteristics of satisfactory accounting internal controls include:

- Identify the financial risks faced by Council
- Assess each of the identified financial risks
- Assess Council's existing financial internal controls
- Develop and implement effective financial internal controls to address the identified risks
- Perform regular reviews of the effectiveness of Council's financial internal 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 of the Council's operations.

An internal audit review should be undertaken by relevant officers of the organisation on a semi regular basis to ensure the whole organisation is following defined and appropriate procedures.

## Control Procedures

Control Procedures can be summarised as follows:

- General controls
- Application controls
- Security of data

General controls include segregation of duties for financial and non-financial functions, supervision of staff and systems and system design and implementation maintenance to ensure integrity of systems.

Examples include:

- Maintenance of operating instructions
- Restrictions based on need and authority to computer files
- Specific procedures for rates, debtors, creditors, payroll, assets and other accounting functions
- Internal and external audits of activities and functions

Application controls refer to the controls over data capture and data processing including transaction entry information, file maintenance and error corrections processes. These are often procedural based and are often linked to features of accounting software programs.

Security of data and assets refer to the internal controls for the electronic and physical recording, storing and maintaining of information on data and assets as well as the safe storage of physical assets. This can include physical restrictions to access, electronic back-ups and records management.

## **External Audit**

Auditors are required to provide an opinion on the effectiveness of the internal control framework in relation to financial controls under Section 129 of the Local Government Act 1999. An external audit enables the testing of internal control systems to satisfy legislation and the Council's public accountability.

## **DEFINITION**

Internal control is the plan of the organisation and the methods and procedures adopted by the management of the Council to assist in achieving the Council objectives of ensuring, as far as it is practical to do so, the orderly and efficient conduct of the Council.