 <b>Adelaide Plains Council</b>	<b>Internal Financial Controls Policy</b>	
	<b>Version Adoption by Council:</b> 26 April 2022 <b>Resolution Number:</b> 2022/093 <b>Current Version:</b> V4	
	<b>Administered by:</b> General Manager – Finance and Business	<b>Last Review Date:</b> 2022 <b>Next Review Date:</b> 2024
<b>Document No:</b> D22/1077	<b>Strategic Objective:</b> Proactive Leadership Strategic and sustainable financial management	

## 1. Objective

This Policy is made pursuant to *Section 125 of the Local Government Act 1999* (the Act) which provides:

- (1) *A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's 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.*

Regulation 10A of the Local Government (Financial Management) Regulations 2011 also states 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.*

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.

## 2. Scope

This policy covers the internal financial controls and audit functions in place for the Adelaide Plains Council.

### **3. Internal Financial Control**

Internal Financial Controls, as a part of Council's broader internal control processes, is designed to assist the Council in addressing the risk of fraud and error, improving reliability of financial reporting and compliance with laws, regulations and policies. It focuses on Council's financial processes and functions that deal with, but are not limited to, budgeting, financial reporting, transaction processing, financial delegations and treasury management.

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.

As a first step towards developing a complete risk management and corporate governance framework, the financial component of internal controls will be addressed and these 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.

### **4. Risk Management Approach**

Council will maintain an internal control framework, which will be based upon a pro-active 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 and promote a culture that emphasises integrity, ethical values and competence.

### **5. 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 Committee.

The Chief Executive Officer and presiding 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 Council management 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.

**6. 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.

**7. Better Practice Model**

The Local Government (Financial Management) Regulations (2011) prescribe an internal controls framework customised for Council adoption and use. This has been developed and endorsed by South Australian peak local government finance and audit management bodies in conjunction with private sector risk management experts.

The Better Practice Model – Internal Financial Controls framework is a risk management tool that assists Council and its administration to assess mitigate against and employ processes to reduce risk in its day-to-day operations.

The model is underpinned by the “Three Lines of Defence” – functions that own and manage risk, functions that oversee risk (e.g. control self-assessment) and independent assurance (e.g. internal audit).

Diagram depicting the relationship between these planks and their relationship with Local Government Act and external auditors is provided below.



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### *Responsibility for Control Environment*

Council is statutorily responsible for maintaining financial controls aimed at preventing fraud and minimise the likelihood of error or misstatement.

As part of the delegated powers passed to the Council administration, the Chief Executive plays a key role in establishing and developing an effective internal control environment, through delegating functional control duties to management.

Administrative management is primarily responsible for overseeing and mitigating organisational risks on a day-to-day basis. Practically this means identifying risks, establishing and adhering to policies and procedures and undertaking control self-assessment in establishing the procedural framework by which all business operations will be transacted within.

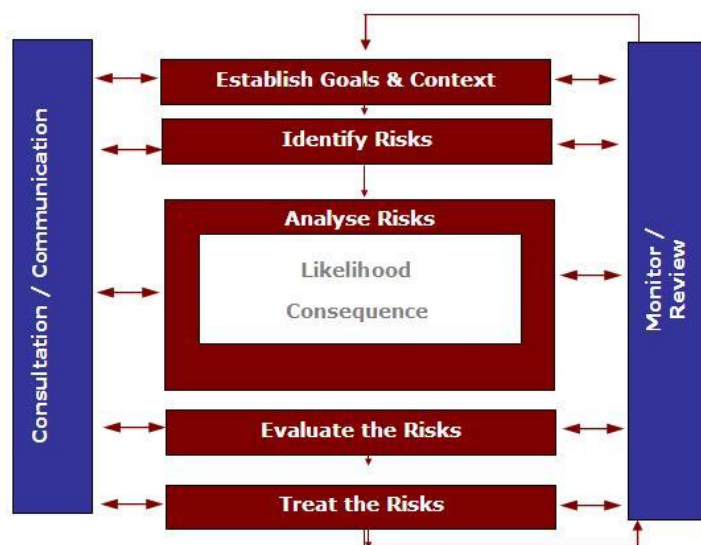
The final line of defence specifically calls for internal audit function to perform objective tests on the performance and effectiveness of the first two lines.

Further advice and assurance may be sought from the current external auditor if required, particularly leading up to and within the annual external audit engagement period.

## **8. 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.

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- 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 the Executive Leadership and the Audit Committee at regular intervals.

## **9. Review of 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 Executive Leadership and the Audit Committee will be informed of the outcome of each review and updated regularly on progress with action plans identified during the reviews.

## **10. Support with Development of a Risk Management System**

To assist in the ongoing improvement of a risk management system the Local Government Association's *Better Practice Model – Internal Financial Controls* should be reviewed from time to time, to identify the current recommended risk management database of internal controls and supporting documentation.

## **11. Related Documents**

Annual Business Plan

Long Term Financial Plan

Risk Management Policy and Framework

Strategic Plan 2021-2024

## **12. Records Management**

All documents relating to this Policy will be registered in Council's Record Management System and remain confidential where identified.

## **13. Document Review**

This Policy will be reviewed annually to ensure legislative compliance and that it continues to meet the requirements of Council its activities and programs.

#### **14. References (Legislative and Standards Requirements)**

*Local Government Act 1999* - Sections 125, 126, 129 & 130

*Local Government (Financial Management) Regulations 2011* – Regulation 14 (e)

Australian/New Zealand Standard AS/NZS ISO 31000:2009

LGA's Financial Sustainability Information Paper No. 21 – Internal Financial Controls

Better Practice Model – Internal Financial Controls for South Australian Councils – April 2017

#### **15. Further Information**

Members of the public may inspect this Policy free of charge on Council's website at [www.apc.sa.gov.au](http://www.apc.sa.gov.au) or at Council's Principal Office at:

2a Wasleys Rd, Mallala SA 5502

A copy of this policy may be obtained on payment of a fee.

Any queries in relation to this Policy must be in writing and directed to the General Manager –Finance and Business.