Internal Financial Control Policy

Strategic Reference	Outcome 5 - Leadership Strategy 3.3 - Council takes a responsible approach to financial sustainability Strategy 3.5 – Council reports openly and transparently on its performance Strategy 3.8 – Council Members demonstrate 'good governance' in their roles.
File reference	AR18/3245
Responsibility	Community & Corporate Department
Revision Number	5
Effective date	June 2001
Last revised date	November 2025
Minutes reference	333/25, 088/18, 103/16, 018/14, 392/11
Next review date	November 2028
Applicable Legislation	Local Government Act 1999 Local Government (Financial Management) Regulations 2011
Related Policies	Public Interest Disclosure Policy Fraud, Corruption, Misconduct & Maladministration Policy Risk Management Policy
Related Documents	Internal Control Procedures Better Practice Model – Financial Internal Control for South Australian Councils (SALGFMG) Australian/New Zealand Standard AS/NZ ISO 31000:2018

1. Purpose

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

The system of internal control extends beyond the matters which relate directly to the functions of Council's corporate business system, and relates to every aspect of Council's operations.

A complete risk management and corporate governance framework for the financial component of internal controls are addressed and are required to ensure Council resources are used prudently and in an efficient, effective, accountable and economical manner in accordance with Section 125 of the Local Government Act 1999. Examples of the types of activities addressed are:

- Accounts payable,
- Payroll, budgeting,
- Management reporting,
- Banking,
- Purchasing and
- Contracting.

2. Policy Objectives

Council's objectives of this Policy are:

- To ensure the risks relating to the stewardship of public resources are adequately managed through effective internal controls.
- To establish a framework for an effective financial internal control system which conveys to stakeholders that they are responsible for ensuring that internal controls are established, documented, maintained, utilised, and adhered to across Council, and to all employees that they are responsible for utilising and adhering to those internal controls.
- To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency

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.

3. Definitions

***"Better Practice Model – Internal Financial Controls (BPM)"* –** is the framework prepared by the South Australian Local Government Financial Management Group 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.

"Internal Financial Control" - is the process that assists Council in addressing the risk of fraud and error, while improving the reliability of financial reporting and compliance with laws, regulations and policies.

"Risk Management Framework" – is a layered structure that underpins and informs the financial reporting policies and procedures for Council.

4. Roles and Responsibilities

Council - The Council is responsible for the approval of this Policy.

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

Internal Audit Function - if the Council has an internal audit function providing oversight of planning and scoping of the internal audit work plan; and reviewing and commenting on reports provided by the person primarily responsible for the internal audit function at least on a quarterly basis; or

If the Council does not have an internal audit function, reviewing and commenting on an annual report provided by the Chief Executive Officer in relation to the policies and processes adopted by the Council to evaluate and improve the effectiveness of its internal control practices and procedures as required the by Local Government Act 1999, section 126(4)(g)

Chief Executive Officer & Principal Member (Mayor) - the Chief Executive Officer (CEO) is accountable to Council for development and implementation of a financial internal control framework and appropriate systems to achieve accountability and integrity. The CEO and Principal Member (Mayor) of Council must also sign the financial statements in regard to internal controls as required by Local Government (Financial Management) Regulations 2011, regulation14.

Executive Leadership Team – are responsible for adopting a risk management approach to identifying and assessing risks and applying cost/benefit analysis in the development of internal controls.

The Executive Leadership Team, as sponsor, oversee the development of adequate financial internal controls and subsequently task relevant stakeholders with the implementation, evaluation and revision (on an ongoing basis) in respect to all of the functions of Council under their control to ensure, as far as practicable that:

- All financial records and other relevant databases completely capture 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
- Management is expected to promote a best practice approach in support of effective business practices, accountability, and properly functioning controls.

Employees - Council employees are responsible for conducting their duties in accordance with all financial internal control policies, 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 processes.

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 & Risk Committee has an important role in assisting Council to meet its statutory obligations in this area.

5. Internal Financial Control types

There are effectively four 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. These controls have little impact on the financial records. However, 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.

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; and
- Procedures to ensure appropriate stakeholders/users have capabilities commensurate with responsibilities
- 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 control mechanisms across various elements as follows:

Detective Controls: The objectives of detective controls are designed to identify and uncover errors or regularities after they have occurred.

Some of these methods include:

- Bank/account reconciliation
- Internal audits
- Exception reporting
- Variance analysis

Preventative Controls: The objectives of preventative controls are to stop errors of fraud before it happens. The controls are proactive measures and include:

- Segregation of duties
- Authorisation requirements (ie. dual signatory/release)
- Access controls
- Policies and procedures

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. Risk Management Approach

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 achieving 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 has a culture that emphasises integrity, ethical values and competence.

To assist in the ongoing improvement of a risk management system, the Local Government Association's Better Practice Model – Internal Financial Controls for South Australian Councils will be control tested on either a 6, 12 or 18 month cycle. The control assessment program will be reviewed and approved by the Audit & Risk Committee on an annual basis to ensure Council's processes are in line with the updated Better Practice Model.

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. In particular 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.

8. 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 (ie. strategic planning, performance monitoring and improvement) that may need to be undertaken, including the following:

Financial Audit

- Establishment of a robust system 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 an annual report to be provided to the Audit & Risk Committee on the activities and findings of the internal audits.

Internal audits should occur annually in relevant business directorates, although an audit may also be conducted if:

- Established processes are demonstrating a state of instability; or
- Significant changes have been made in functional areas

The general characteristics of a sound system of financial 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.

9. External audit

Council requires a comprehensive external audit by its 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.

10. Availability/Accessibility

This Policy is available for inspection at Council's offices during normal business hours and Council's website, and will be emailed to interested parties on request (please lodge request in writing via email to council@coorong.sa.gov.au).

11. Document History

This Policy will be reviewed at least every three (3) years or more frequently if legislation or Council requires.

Version	Adopted	Minute No	Description of change(s)
1	12 December 2011	392/11	New policy
2	18 February 2014	018/14	Cyclical review
3	17 May 2016	103/16	Cyclical review

4	15 May 2018	088/18	Cyclical review
5	18 November 2025	333/25	Strategic references updated Policy objectives updated to mirror Better Practice Model Definitions expanded to reference a more comprehensive list Section 4 (Roles and Responsibilities) refined to include relevant parties and their designated duties Section 6 (Elements of an Internal Control Framework) inserted to provide a holistic overview of the scope within which administration must operate Section 7 (Risk Management Approach) enhanced to provide a holistic approach to risk management; it's effects on Council operations and resulting impact on financial controls (and in accordance with Local Government Reforms)