Port Pirie Regional Council

INTERNAL CONTROL POLICY

Type	Governance
Category	Corporate & Community
Responsible Officer	Director Corporate & Community
First Issued / Adopted	28 January 2009
Review Period	2 years
Last Reviewed	16 November 2020 28 March 2018 28 February 2018 27 January 2016 24 July 2013
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Next Review Date	November 2022
Applicable Legislation	Local Government Act 1999 Local Government (Financial Management & Rating) Amendment Bill 2005 and Regulation
Related Documents	Delegations Register Policy Manual Codes of Conduct AS/NZA ISO 31000:2009
Public Consultation Required	Yes
File Reference	9.63.1.4

1. PURPOSE

To outline 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.

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1. **PURPOSE** (Cont'd)

To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency; and

That risks relating to the stewardship of public resources are adequately managed to acceptable and practical levels through effective internal controls.

2. **SCOPE**

Internal Control is concerned with responding to the risk management of all of the internal operations of Council. This includes the financial and all non-financial operations.

Internal Control is not concerned with risk management of matters external to the operations of Council, so Internal Control is not concerned with risks faced by the Council including potential disasters or political, economic and environmental risks.

3. **DEFINITIONS**

Nil

4. **POLICY STATEMENT**

4.1 Introduction

Internal control is part of the Council corporate governance framework and covers areas such as strategic management, business development, project management, human resources and financial management; however, it is not limited to only these areas.

An Internal control framework consists of policies and processes that aim to mitigate risks and provide reasonable assurance that the operations of Council are conducted in an efficient and effective manner, activities and services are planned, assets are secure and protected from loss, legislation and council policies are followed and, record keeping and financial reporting is accurate and reliable.

4.2 Effective Internal Control

Effective internal control is a vital tool for the Elected Members and the CEO to ensure that they carry out their activities in an efficient, compliant, reliable and transparent manner.

Effective internal controls help provide a reasonable assurance that the financial systems produce reliable information for reporting. The Audit Committee and external auditors take account of internal control practices when forming their advice and opinions.

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4.   POLICY STATEMENT

Effective and transparent internal control is built on the following key areas:

- integrity and ethics
- policies and delegated authority
- levels of responsibilities and authorities
- audit practices
- information system access and security
- management operating style
- human resource management and practices.

The Council will establish and maintain an effective internal control system in each area of the organisation.

The internal control system should:

- reflect a co-ordinated 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; and
- be subject to periodic review at a frequency appropriate for each control.

4.3   *Risk Management Approach*

The Council will maintain an internal control framework based upon a pro-active risk management culture that emphasises integrity, ethical values and competence. The types of risks identified in the framework will be those which may prevent Council from meeting its objectives or not maximising its opportunities.

In establishing and assessing internal control practices, it is necessary to recognise that in practical terms a certain level of risk will always exist within organisations. The purpose of internal control is to provide assurance that processes are designed in a manner that irregularities are prevented. If they do occur, they are able to be detected and corrected and, internal risks faced by Council are minimised to acceptable levels.

It is recognised that all risks cannot be eliminated, however the internal controls applied should reduce the likelihood of risks occurring, to acceptable limits of risk.

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4. POLICY STATEMENTS (Cont'd)

4.4. Roles and Responsibilities

The Council Elected Member body is responsible for approval of the Internal Control Policy.

The Chief Executive Officer is responsible for developing and maintaining an Internal Control Framework, which ensures Council objectives are achieved efficiently and effectively.

The Council Audit Committee is responsible for review of any proposed changes to this policy and the framework as part of its role to review the effectiveness of the Internal Control system, in accordance with its Terms of Reference.

The Chief Executive Officer and the Mayor must sign the financial statements, which include assurance about Internal Controls, as required by Local Government (Financial Management) Regulations 2011 r14.

The Directors, Managers and Supervisors are expected to promote a best practice approach in support of effective business practices and properly functioning controls by adopting a risk management approach to identifying and assessing risks and then apply a cost/benefit analysis in the development of internal controls.

Employees must conduct their duties in accordance with internal control policies, procedures and practices of Council and are expected to undertake training in aspects of control that directly affect their own work procedures and also maintain an awareness of other control practices within the council.

4.5 Elements of an Internal Control Framework

Internal control systems vary depending on the organisation operating environment, such as size and nature, type of operation, level of autonomy or other practical implications.

The essential elements of an effective internal control framework are:

- Structure of Council;
- Delegation of Authority;
- Policies and procedures;
- Risk identification and assessment;
- Information Technology system controls;
- Culture and organisation behaviours;
- Management compliance assurance;
- Trained and properly qualified staff;
- Regular and effective review of process e.g. internal audit;
- Liaison with auditors and legal advisors.

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4. POLICY STATEMENTS (Cont'd)

4.6 Limitations of Internal Control

A sound system of internal control will provide a high degree of confidence that Council operations are effectively managed and all resources are properly deployed. However, there are limits to the level of certainty.

Limitations include:

- controls are designed for routine transactions – abnormal or non-routine transactions may bypass control mechanisms,
- the internal control system is operated by people, so there is potential for human error with mistakes as a result of lack of attention, carelessness, improper judgement, lack of knowledge or misunderstanding of instructions,
- people may act together in collusion to undermine the system of internal control;
- employees may abuse a delegation or responsibility to override the internal control system,
- the cost of implementing some controls may be greater than the benefit
- over time, internal controls may become ineffective because of changes to procedures or practices.

4.7 Purpose of System Controls

The Information system comprises all of the records and reporting methods of Council used to maintain accountability for assets, liabilities, revenue and expenses and for the achievement of the objectives of council.

The processing system with control procedures including policies, delegated authority levels, system procedures and practices has been established to achieve the objectives of this policy.

The use of technology with automated controls adds considerable strength to the internal control framework.

System controls include:

- Document controls
- Reconciliations and verifications
- Physical access controls
- Protection of assets
- Financial accounting procedures
- Information technology controls
- Budgeting and reporting
- Management controls.

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4. POLICY STATEMENTS (Cont'd)

4.8 Review of the Internal Controls Framework

An ongoing program of review should be implemented to monitor and identify any changes in the level of type of risk exposure. A risk review should also be undertaken in response to a process or system change.

The aim of a review is to:

- Assess reliability and integrity of system information
- Ensure that system procedures comply with policies, standards, laws and regulations
- Evaluate system compliance to written procedures and work practices
- Determine overall effectiveness.
- Identify issues
- Plan & implement changes.

Major task of a review program are to:

- identify key issues
- assess whether associated controls are effective and
- determine whether additional or different controls are needed.

The assessment of risks should consider aspects of internal control including:

- relevant principles
- recommended practices
- key issues
- options for improvement.

The Executive Management Team is to be informed of the outcome of each review and updated regularly on progress with action plans identified during the reviews.

The Audit Committee is to be updated regularly on progress with action plans identified during the reviews.

4.9 Implementation

An initial full review of system processes should be undertaken. A review should not be seen as an audit of past transactions. Its objective is to identify, evaluate and document existing internal financial controls and recommend changes and/or new internal controls where necessary;

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4. POLICY STATEMENTS (Cont'd)

4.9 Implementation (Cont'd)

Purpose of a review:

- examine current procedures;
- identify key risks;
- 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.

Number:	Identification number of internal control for each risk
Description of Control:	Description of the internal financial control
Current Situation:	Current situation in regard to each internal control
Target Date:	Target date allocated to the implementation of the control
Responsible Officer:	Responsible officer for each internal control
Checking Officer:	Checking officer and/or if the internal control is included in the "Spot Check" process (refer below in the Review Process)

For each risk identified an assessment of its likelihood and consequence should be undertaken according to the classifications included in the Risk Management Policy.

To maintain confidence in the internal controls, regular spot checks on key or "core" controls should be conducted. These controls can be removed or new controls added at any time. If spot checks are undertaken regularly the timing for a full review may be extended.

An employee will be responsible for specific tasks to certify on a regular basis that the internal controls relating to a particular procedure are in place and are being observed.

If new systems are introduced, or when employees change, it is essential that any internal controls that relate to that position are reviewed within the context of the new system, and/or with new employees.

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4. POLICY STATEMENTS (Cont'd)

4.10 Financial Systems

Financial internal controls are critical to effective risk management of a Council's operations and promote the achievement of its goals and objectives.

As a first step towards developing a complete risk management and corporate governance framework the financial component of internal controls is being addressed.

An initial full review has been completed to identify and document the internal controls that will be managed. Examples of the types of activities addressed are accounts payable, payroll, banking and contracting.

The internal financial controls will be reviewed at least every twelve months to ensure all controls are current and appropriate.

4.11 Reporting

Directors, Managers and Supervisors are responsible for the monitoring and review of procedures to be integrated into operational activities, using relevant checklists to undertake a planned review or in response to identification of a risk.

Any proposed changes need to be referred to the relevant Director/Manager for assessment and implementation planning, taking into consideration the need for consultation and the level of impact across the entire council operations.

A Control Assessment worksheet will need to be completed and all related documents should be retained on file.

5. FURTHER INFORMATION

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.pirie.sa.gov.au

- Port Pirie Council Administration Centre, 115 Ellen Street, Port Pirie
- Crystal Brook Rural Office, Bowman Street, Crystal Brook.

Copies will be provided to interested parties upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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