Keywords: internal control, financial risk

Strategic Plan:	*Deliver organisational excellence and innovation*
Classification:	*Executive Services – Financial Management*
First Issued/Approved:	*December 2011*
Review Frequency:	*Biennially*
Last Reviewed:	*January 2026*
Next Review Due:	*January 2028*
Responsible Officer(s):	*Finance Manager*
Council File Reference:	*7.63.1*
Applicable Legislation:	*Local Government Act 1999 – sections 125,126,129 & 130* *Local Government (Financial Management) Regulations 2011 r14(e)* *Australian/New Zealand Standard AS/NZS ISO 3100:2009*
Relevant Policies:	*Privacy Policy*
Related Procedures:	*Internal Financial Controls Assessment*
Delegations:	*Chief Executive Officer/ General Manager Corporate and Community Services*

1. Purpose

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 economic 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 to promote the achievement of its goals and objectives.

Internal controls are not limited to financial matters though. An effective internal control environment will provide the means by which council can successfully address and mitigate many risks. The internal control system should be designed to consider financial, information, technological, human resource, political and legislative activities of council.

2. Scope

The scope of this policy is to cover the following:

- Financial risks relating to the stewardship of public resources are adequately managed through effective internal controls,
- that a framework is in place in accordance with the "Better Practice Model – Internal Financial Controls" 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, and
- to ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency.

3. Definitions

Better Practice Model	The framework prepared by the Local Government Association of South Australia (LGA) and the South Australian Local Government Financial Management Group (SALGFMG) 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 Controls	A process designed to provide reasonable assurance that information provided is reliable, accurate and timely. Usually carried out through policies and procedures and extends to the safeguarding of assets.
Internal Control Framework	Refers to policies, practices and procedures of Council which are designed to provide assurance that the activities and functions of council are carried out in an effective and efficient manner, with records being maintained accurately and the assets of council being protected and secured.
Risk	A situation involving exposure to danger, harm or loss. Can be Financial, Operational, Reputational, Compliance, Market, Security, Legal and Strategic
Safeguard	A measure taken to protect someone or something or to prevent something undesirable

4. Principles

Council will maintain an internal control framework based on a proactive risk management culture. The types of risks identified in this framework will be those which may prevent council from meeting its objectives or not maximising its opportunities. Council will ensure its policies, practices and procedures of internal financial control are in accordance with the "Better Practice Model – Internal Financial Controls".

Internal financial controls are designed to assist the organisation in addressing risk of fraud and error and improving reliability of financial reporting and compliance with laws, regulations and policies. It focuses on Council's financial processes and functions that deal with budgeting, financial reporting, transaction processing, financial delegations, treasury management, infrastructure management and the like.

Internal financial controls will not remove all risk but are a means of either eliminating or reducing the likelihood and consequence of adverse events. It is recognised that not all risks can be eliminated, however the internal controls applied should reduce the likelihood of the risk occurring so the residual risk is within the risk appetite for Berri Barmera Council.

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

5. Policy Statement

Elected Members and the Chief Executive Officer have a responsibility to ensure that the operations of council are conducted in compliance with appropriate laws, regulations and standards. In order to achieve this, internal controls are developed for key risk areas identified in accordance with the "Better Practice Model – Internal Financial Controls".

Roles and Responsibilities
Council is responsible for approval of the Internal Control Policy and the Chief Executive Officer is responsible for developing and maintaining an internal control framework, which ensures that Council objectives are achieved efficiently and effectively. Updates to the framework will be presented to the Audit & Risk Committee for approval.

The responsibility of the Audit & Risk Committee, as per section 126 of the Local Government Act, is dictated by the following:

(1a) The purpose of an audit and risk committee established by a council is to provide independent assurance and advice to the council on accounting, financial management, internal controls, risk management and governance matters.

The committee has the following function in relation to internal controls:

(2) (g) (ii) if 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.

Therefore, the Audit and Risk Committee is responsible for the monitoring and review of the effectiveness of Council's internal controls and risk management systems.

The external auditor, under section 129 of the Local Government Act 1999 and regulation 19(3) of the Local Government (Financial Management) Regulations 2011, must provide an Independent Assurance Report on the Internal Controls of Council as part of the audit of the financial statements.

The Chief Executive Officer and Mayor must sign the financial statements in regard to internal controls as required by Local Government (Financial Management) Regulations 2011.

The Senior Management Team 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.

Elements of an Internal Control Framework
The essential elements of an 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 eg internal audit
- Liaison with auditors and legal advisors
- Senior management compliance assurance
- Risk identification and assessment

Basis of the Internal Control Framework
The Internal Control Framework should:
- align to Councils strategic objectives;
- reflect a co-ordinated and systematic approach to risk management;
- be embraced by management and the responsible officers within the organisation;
- be based upon the "Better Practice Model – Internal Financial Controls" for South Australian Councils for internal financial controls;
- ensure compliance with legislation;
- be consistently recorded within a whole-of-organisation framework;
- have an associated plan of action to ensure that the controls are correctly implemented, including policies, procedures, guidelines and training;
- 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.

Allocation of controls
Controls can be allocated into three categories:
- Preventative – processes put in place to avoid undesirable events from occurring
- Detective – processes put in place to detect and subsequently correct undesirable events that have already occurred
- Directive – processes put in place to encourage a desirable event to occur.

Principles of internal controls
The principles that guide strong internal controls include:
- Assets and liabilities of the Council exist at a given date
- Assets or liabilities are recorded at the appropriate carrying value
- Recorded transactions or other events occurred during the relevant period
- Control is established at source and only properly authorised transactions are processed
- Responsibility for executing a transaction, recording the transaction and maintaining custody of the asses and/or liabilities resulting from a transaction should be assigned to different individuals or departments
- There are no unrecorded assets, liabilities, transactions or other events or undisclosed items
- A transaction or event is recorded at the proper amount and revenue or expense is allocated to the proper period (facilitated by the use of IT data integrity)
- Particular components of the financial report are properly disclosed, classified and described.

Risk Management Approach
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:



Establish Goals and context – effective risk management requires a thorough understanding of 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 the effectiveness of risks in terms of likelihood and consequence to identify the current risk level

Evaluate the risks – determine whether the risks are acceptable or unacceptable and document the findings

Treat the risks – treat risks by one of the following methods; discontinuing the activity that generated the risk, reducing the likelihood of occurrence, reducing the consequences 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 the progress of the controls. Managers must monitor the effectiveness of risk treatments and report progress to the Audit & Risk Committee on an annual basis at a minimum.

This risk management methodology will assist in the council's risk management processes with particular emphasis on the following:

- Identifying the key financial risks having regard to the "Better Practice Model – Internal Financial Controls"
- Assessing whether the associated internal controls are effective
- Identifying where further controls may be required.

Internal control assessment

Council will review and report on a selection of risks from the “Better Practice Model – Internal Financial Controls” each year to ensure the financial controls are working effectively and are current and appropriate. The outcome of each review will be reported to the Audit & Risk Committee.

Electronic version on the Intranet is the controlled version.
Printed copies are considered uncontrolled.
Before using a printed copy, verify that is the current version.