



CITY OF  
MITCHAM

MITCHAM

# INTERNAL CONTROLS POLICY

*Endorsed by Council 28 January 2020  
Version 2: December 2019*

public policy

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MITCHAM

## 1. PREAMBLE

A strong sound internal control environment provides for a high level of assurance to those that have an interest in Council's assets and those that use information produced by Council for decision making and is a fundamental part of the Council's governance framework. The factors required to achieve this environment are varied and include organisational values; systems controls; physical controls, training and awareness and a system of review and monitoring that is maintained.

Section 125 of the *Local Government Act 1999* requires 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.

Section 14 (2) of the *Local Government (Financial Management) Regulations 1999* which states that, "the auditor must give due consideration to the adequacy of the council's policies, practices and procedures of internal control under Section 125 of the Act".

In addition Section 130 of the *Local Government Act 1999* states that the Chief Executive Officer must produce, at the request of the auditor, any documents relating to the internal controls of the Council.

## 2. PURPOSE

The purpose of this Policy is to establish the environment required to promote:

- Activities are carried out in an efficient and orderly manner to achieve council objectives
- Adherence to management policies
- The safeguard of council's assets
- The accuracy and reliability of council records.

It describes the factors that are to be considered necessary to provide such an environment.

## 3. SCOPE

This policy is to provide guidance to all relevant policies, procedures and practices of council that are captured by the intent of Section 125 of the *Local Government Act, 1999*.

## 4. DEFINITIONS

**Council** - refers to the elected member body of Council.

**Employees** - includes a person engaged directly by the Council in a full time, part time, casual or volunteer role and persons providing services to, or on behalf of, the Council even though they may be employed by another party.

**Executive Leadership Group** - comprises of the Chief Executive Officer and General Managers.

**External Audit** - an annual independent review conducted by an external auditor of the financial records, transactions and internal controls of the Council's operations in order to form an opinion as to whether Council has materially complied with the scope of matters prescribed under the *Local Government Act 1999*. An auditor is required to provide a separate opinion on the Council's Financial Statements and on the internal controls of Council per Section 129 of the *Local Government Act 1999*.

**Internal Audit** - involves evaluating and improving the effectiveness of risk management, control and governance processes in the Council.

**Internal Controls** - are the mechanisms, rules, and procedures implemented by Council to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.

**Principal Member of Council** - refers to the Mayor of the City of Mitcham.

## 5. PRINCIPLES

A comprehensive and appropriate system of internal control will include policies, practices, procedures and training and awareness that provide a framework that ensures:

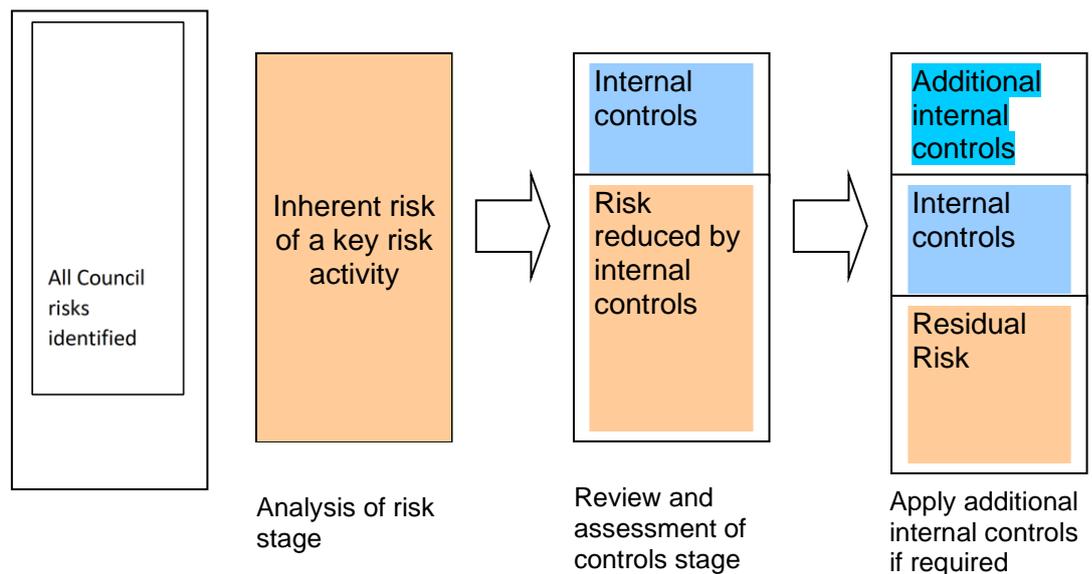
- Risk relating to the stewardship of public resources are adequately managed through effective internal controls
- Strategic Management Plan objectives are monitored and reported in an efficient and orderly manner
- Reporting information is accurate and reliable to facilitate sound decision making
- Policies and procedures are followed
- Compliance with relevant legislation and regulations applicable to Local Government, and the Better Practice Model – Internal Financial Controls
- Assets are secured and protected from unauthorised use
- Records are complete, accurate, secure and reliable
- Risks are identified, assessed and mitigated where appropriate.

## 6. POLICY STATEMENT

### 6.1. Risk Management Approach

Council will maintain an internal controls framework, which is based upon a proactive risk management culture. The types of risk identified in the framework will be those which may prevent Council from meeting its objectives or not maximising its opportunities.

The Risk Management approach is illustrated in the following diagram:



## 6.2. Roles and Responsibilities

The **Council** is responsible for endorsement of the Internal Controls Policy.

The **Chief Executive Officer** is responsible for developing and maintaining an internal control framework, which ensures Council's objectives are achieved efficiently and effectively.

The **Chief Executive Officer** and **Principal Member** of Council must sign the financial statements in regards to internal controls as required by the Local Government (Financial Management) Regulations 2011

The **General Manager, Organisational and Community Development** must develop a risk management framework to identify and assess risks and internal controls.

The **Executive Leadership Group** is responsible for providing proactive risk management leadership to the organisation.

**Employees** are responsible for being alert to risks, conducting their duties in accordance with policies, procedures and practices and applying reasonable judgement including appropriate controls within their responsibility and attending training and awareness sessions, as appropriate.

## 6.3. Elements of an Internal Control Environment

An effective internal control environment is achieved when the following elements exist:

- Policies and procedures are communicated to staff
- System controls are in place
- Processes of risk identification and assessment exist
- Staff are adequately trained
- Appropriate delegations of authority are in place
- Systems which regularly monitor and review processes are in place

- Effective communication with auditors exists.

#### 6.4. Nature of Internal Controls

Internal controls are either proactive or reactive in nature and can be described as:

- Preventative in nature: Processes put in place to avoid undesirable events from occurring. For example: Mandatory Training List for Work Place Health and Safety training requirements.
- Directive in nature: Processes put in place to encourage a desirable event to occur. For example: Treasury Management Policy
- Detective in nature: Processes put in place to detect and subsequently correct undesirable events that have already occurred. For example: Two signatories for all cheques disbursed.

#### 6.5. Characteristics of an Internal Control Environment

When the following characteristics all exist at the same time and are operating effectively, decision makers of Council activities can be assured that the spirit of Section 125 of the *Local Government Act 1999*, is being achieved.

##### 6.5.1. Council values and organisational structure reinforce the importance of internal control practices.

This is achieved by communicating Council's policies and principles which reinforce ethical behaviours and ensuring their compliance. For example: Code of Conduct and the Organisational Values.

The organisational structure should be one that reflects the level of responsibility and authority of all staff. Appropriate delegations and training are reflected at each level so that all staff understand their responsibilities and potential risk issues (including but now limited to Cyber Security).

Council's Risk Register is regularly monitored with risks rated as Extreme or High being regularly reported and monitored by Executive Leadership Group and the Audit Committee.

##### 6.5.2. Information systems and their processes and policies are kept up to date.

This includes practices such as regularly reconciling key balance sheet accounts such as Council's bank account; providing Council's auditors with segregation of certain duties in order to minimise the opportunity for collusion; computer generated sequential numbering of documents; reviewing information technology policies on a regular basis to keep them current with technological advancements.

Internal controls relating to information technology also include appropriate user profiles restricting access to computer programs and files to authorised staff only; the regular changing of passwords; computer audit trails.

### 6.5.3. Physical controls over records and assets.

These controls relate to the safeguarding of Council's records, both hardcopy documents and electronic documents, as well as Council assets such as Plant and Equipment and Infrastructure assets.

Controls with this sort of characteristic include keeping Council records in a fire proof room; keeping Council's server in a temperature controlled and fireproof room; keeping backup offsite; garaging Council plant in a secured location at the depot; keeping the Council safe and the daily takings in a secured, restricted location.

### 6.5.4. Monitoring of Controls

The review and monitoring of internal controls can occur at many levels within the organisation.

Independent monitoring may also be undertaken by those external to Council. These external parties include the both the Internal and External Auditors; Local Government Association Workers' Compensation Scheme; Local Government Association Mutual Liability Scheme, and SA Ombudsman.

The database of internal controls will also be reviewed and assessed at least annually with the results reported to the Audit Committee and the External and Internal Auditor.

Other regular activities that perform a monitoring role include:

- Annual Risk Assessment
- Internal Audit function
- External Audit function
- Reporting to the Audit Committee in relation to Risk Management, Internal Audit and External Audit activities
- Quarterly Budget reviews
- Monthly Financial Reports
- Regular review of the Risk Register
- Strategic Plan KPI achievements reviewed regularly.

## 6.6. The Limitations of Internal Controls

The existence of a sound internal control environment provides Council with an assurance that activities are being carried out in an efficient and effective manner and that its assets are secure. Even with effective internal controls, the risk of errors and inappropriate activities are not entirely eliminated. The following are factors not entirely eliminated by an internal control framework:

- Human error may cause breakdown in internal controls when staff are pressured with tight timeframes; exercise poor judgement; lack appropriate understanding of their responsibilities and delegations and when they lack appropriate training.
- Abnormal or non-routine transactions may not be appropriately captured by internal controls designed for routine transactions.

- Inappropriate behaviour by a number of staff acting together in collusion to bypass the systems of internal control.
- A deliberate decision to not implement cost prohibitive internal controls.
- Internal controls not being updated when changes in procedures or changes in technology occur.

## 7. POLICY REVIEW

This Policy will be subject to review every four (4) years or sooner at the discretion of the relevant General Manager.

The CEO has delegated authority to endorse any amendments to the Policy that do not vary the intent of the Policy.

## 8. AVAILABILITY OF THE POLICY

This policy will be available for inspection at the Council's principle office during ordinary business hours and on Council's website.

Copies will also be made available to interested members of the community upon request and payment of a fee in accordance with Council's Schedule of Fees and Charges.

## 9. VERSION HISTORY

VERSION	AUTHOR(S) POSITION	CHANGES	DATE
1	Manager Finance and Customer Service	New Policy	27/4/2011
2 - 3	General Manager, Organisational and Community Development	As outlined in Item 9.4 of the Council Agenda of 28 January 2020	January 2020

## 10. DOCUMENT CONTROL

<b>Responsible Department</b>	Governance
<b>Delegations Contained within Policy</b>	YES
<b>Classification</b>	Financial Management
<b>Applicable legislation</b>	Section 125 of the <i>Local Government Act 1999</i> 14(2) of the <i>Local Government (Financial Management) Regulations 1999</i>  S130 of the <i>Local Government Act 1999</i> S126 of the <i>Local Government Act 1999</i>
<b>Related Policies &amp; Corporate Documents</b>	Employee Codes of Conduct Public Interest Disclosures Policy Public Interest Disclosures Procedures Delegations manual Various policies and procedures

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<b>Additional references</b>	ASA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment. SALG FMG “Better Practice Model – Internal Controls and Financial Management for South Australian Councils”. Risk Management Standard (AS/NZ ISO 31000:2009)		
<b>Endorsed by Council</b>	28/01/2020	<b>Item No:</b>	9.4
<b>Effective Date</b>	27/01/2020	<b>Next Review Date:</b>	1/01/2024
<b>ECM No.</b>	193526		