Internal Control Policy

Keywords:

Reference Number:	*FA002*
Strategic Plan:	
Classification:	*Finance & Administration Policy*
First Issued/Approved:	*June 2006*
Review Frequency:	*Annually*
Last Reviewed:	*May 2014*
Next Review Due:	*May 2015*
Responsible Officer(s):	*Chief Executive Officer*
Council File Reference:	*1/A/9*
Applicable Legislation:	*Local Government Act Sections 125, 126, 129 and 130*
Relevant Policies:	*Fraud and Corruption Prevention Policy*
Related Procedures:	*Internal Control Procedures*
Delegations:	*Refer Council's Delegations Policy*

KINGSTON DISTRICT COUNCIL

INTERNAL CONTROL POLICY

Local Government Act 1999 – Various Sections

Purpose

The purpose of this policy is to ensure that the Council is effectively managed and that its resources are not misused or misappropriated. This policy forms an integral part of Council's risk management and corporate governance framework and ensures a system of efficient and effective management, with appropriate policies and procedures that promote the achievement of its goals and objectives.

This policy describes the major factors to be considered in the development of an effective internal control framework to manage risks associated with operations of Council. Factors such as the management structure, organisational behaviours, other policies and procedures, records and methods of reporting that are necessary to collectively ensure that the financial and non-financial operations of Council are conducted in a proper manner.

Legislative Framework

Section 125 of the *Local Government Act 1999* (the Act) requires Councils to have Internal Control Policies. The Act does not prescribe the content of these policies, procedures and practices.

Section 126 of the Act states that a Council must have an Audit Committee and its functions include the review of the internal control environment.

Section 130 of the Act states that the Chief Executive Officer must provide assistance to the auditor in the conduct of their duties.

Regulation 19(2) of the Local Government (Financial Management) Regulations 1999 states that the auditor must give due consideration to Council's policies, practices and procedures of internal control under in forming an opinion on the financial accounts of Council under Section 129(3)(a) of the Act.

Policy

<u>Scope of Policy</u>

Internal control is concerned with responding to risk management of all the internal operations of Council including both financial and non-financial operations. Internal control is not concerned with risk management as it applies to matters external to the operations of Council. Specifically, Internal Control is not concerned with risks faced by the Council including potential disasters or political, economic and environmental risks.

Policy

Council shall develop and maintain such management structures, organisational behaviours, policies, procedures, records and methods of reporting that are necessary to collectively ensure that the financial and non-financial operations of Council is conducted in an orderly and efficient manner to achieve Council objectives by:

- Assessing and containing risks faced by Council to an acceptable risk level with the level of resources available to it.
- Detecting and correcting of irregularities.
- Safeguarding assets against loss or misuse.
- Ensuring financial and other records are complete and accurate and reliably reflect the conduct of Council.
- Preventing the misuse or misappropriation of resources.
- Achieving the Council's Strategic Plans and the objectives and goals contained therein.
- The actions of all Council officers (including Council members, senior management and staff) are in compliance with the Council's policies, standards, plans and procedures, and all relevant laws and regulations.

Roles and Responsibilities

1. The Elected Members are responsible for the Internal Control Policy of Council.

2. The Chief Executive Officer is accountable to the Elected Members for developing and implementing such an internal control framework as necessary to ensure that the objectives of Council are achieved in an orderly and efficient manner.

3. The management of Council is responsible for the development of adequate internal controls and for their implementation, evaluation and review in respect to all of the functions of Council under their control as far as practicable that:

    - financial records and other relevant data bases completely and accurately reflect the actual operational activities and the timely preparation of reports;
    - assets are safeguarded from unauthorised use or disposition;
    - irregularities are prevented, if they occur are able to be detected and corrected.

    The management is expected to promote a best practice approach in support of effective business practices and properly functioning controls.

4. The Council employees are responsible for conducting their duties in accordance with 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.

Internal Control Environment

1. Internal control and risk management are key components of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of Council, with a focus on the key elements of:

    - Organisation Environment - the structure and broad policies adopted to manage the organisation and assist employees to carry out their roles and functions.
    - Information System - the methods and procedures used to collect, collate and distribute financial and non-financial information.
    - Processing System - the mechanisms in place to ensure that transactions are captured, checked and verified.

2. The Organisation Environment comprises:

    - organisational structure.
    - culture of the organisation.
    - knowledge, skills & experience of employees.
    - procedures and processes.
    - integrity of the corporate information system.

3. An effective and transparent internal control environment 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 control environment requires Council to conduct an evaluation of the risks within Council operations. This should include both financial and non-financial risks.

4. 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.

5   The Processing System with control procedures including policies, delegated authority levels, system procedures and practices should be established to achieve the objectives of this policy. The use of technology with automated controls will strengthen the internal control environment.

    These include:
    - Document controls
    - Reconciliations and verifications
    - Physical access controls
    - Protection of assets

- Financial accounting procedures
- Information technology controls
- Budgeting and reporting
- Management controls

Limitations of Internal Control

A sound system of internal control will provide management, and the Elected Members, with a high degree of confidence that 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 maybe greater than the benefit;
- over time, internal controls may become ineffective because of changes to procedures or practices.

Effective Internal Controls

Principles of Internal Control
The aim is to clearly document and explain internal control practices in such a way that will provide sufficient confidence to Council that the organisation is being properly managed within acceptable limits of risk. The system must include tasks to:

- Evaluate the control environment within Council.
- Identify and evaluate the risks faced by Council.
- Evaluate the information system used by Council.

Evaluation and Design
An internal control framework should be based on a pro-active risk management approach that includes regular review and identification of the risks that exist within the Council operations.

Risks should be identified and assessed, then an appropriate internal control framework developed and implemented to reduce the potential impact of those risks. This should include an analysis to assess whether the cost of a new or modified control is likely to provide a net positive benefit.

As the level and type of risk change over time, the framework of internal controls must include the provision for regular and effective monitoring and review.

Risk Assessment
The risks that have been identified should be assessed by utilising the Risk Assessment guidelines contained within the AN/NZS Standard 4360:2004 Risk Management, details of the risk management matrix, consequence scale and likelihood scale are provided at Appendix 1.

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

Aspects of an effective control framework will include:
- Delegation of authority.
- Documented policies and procedures.
- Trained and qualified employees.
- System controls.
- Effective process review.
- Regular internal audits.
- Documentation of risk identification and assessment.
- Regular liaison with auditor and legal advisors.

Examples of Specific Controls
The follow are examples of controls that can be implemented after a risk assessment requires implementation of controls. In assessing the implementation of controls the costs will be weighed against the benefits before proceeding.

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- check the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations;
- comparison of the result of physical cash and inventory counts with accounting records.

Implementation and Review
Council has a suite of policies and procedures in place along with an Internal Control Procedure which supports this policy. Further risk assessment and review of existing operations shall be undertaken over a period of normal policy and procedural review and as new operations are implemented or when request specifically by the Audit Committee.

Review of Policy
The effectiveness of this Policy will be reviewed annually and can be reviewed at any time. The Chief Executive Officer will report to Council on the outcome of the evaluation, and make recommendations for amendments, alteration or substitution of a new Policy, if relevant.

The Policy will not be altered or substituted so as to affect a process already commenced.

Availability of Policy and Procedure

This Policy is available for inspection at the Council offices and persons may obtain a copy of this Policy upon payment of the fee fixed by the Council.

Adoption of Policy and Procedure

This Policy was adopted by the Council at its meeting held on 21 May 2010, resolution number 6627.

This Policy was reviewed by the Council at its meeting held on 27 May 2011, resolution number 7280.

This Policy was reviewed by the Council at its meeting held on 18 May 2012, resolution number 7876.

This Policy was reviewed by the Council at its meeting held on 24 May 2013, resolution number 8421.

This Policy was reviewed by Council at its meeting held on 23 May 2014, resolution number 8966.