

Internal Control

Introduction

This policy is intended to ensure that the Shire is effectively and efficiently managed and that its resources are not misused or misappropriated.

Internal control is not limited to financial matters. An effective internal control environment will provide the means by which the Shire can successfully address and mitigate many risks.

Objective

To ensure that appropriate internal controls are implemented in order to:

1. Fulfil the Shire's statutory obligations under the:
 - *Local Government Act 1995*;
 - *Financial Management Act 2006*;
 - *Local Government (Audit) Regulations 1996*;
 - *Local Government (Miscellaneous Provisions) Act 1960*;
 - *Local Government (Financial Management) Regulations 1996*; and
 - *Planning and Development Act 2005, sections 214(2), (3) and (5)*.
2. Ensure that the Shire's activities are conducted in an efficient, compliant, transparent, and an effective risk management manner that is compliant with its policies and procedures; and
3. Ensure that the Shire's assets are safe from loss due to fraud and/or mismanagement.

Scope

This policy is intended to provide clear direction to all Members, Executive Managers, and Workers to ensure that the Shire is effectively managed and that its resources are not misused or misappropriated.

Definitions

Term	Definition
Act	<i>Local Government Act 1995.</i>
CEO	Chief Executive Officer
Council	The local government, responsible for making decisions in formal meetings held under the auspices of Part 5 of the <i>Local Government Act 1995</i> and under the <i>Shire's Standing Orders Local Law 2008</i> .
Detective Controls	An accounting term that refers to a type of internal control intended to find problems within the Shire's processes.

Term	Definition
Executive Managers	<p>Managers defined as Senior Workers that Council resolved (Res. No. OCM026/03/22) to designate in accordance with section 5.37 of the <i>Local Government Act 1995</i>:</p> <ul style="list-style-type: none"> • Manager Corporate and Community Services; • Manager Infrastructure and Assets; and • Manager Development and Regulation.
Internal Control	<p>Broadly defined as a process supported by the Shire's policies, procedures and practices which collectively provide a reasonable assurance regarding the achievement of objectives in the following categories:</p> <ul style="list-style-type: none"> • Effectiveness and efficiency of operations; • Reliability and accuracy of financial data; • Compliance with policies, procedures, legislation and regulations. <p>It recognises that a 'system' of internal control extends far beyond those matters which relate solely to the financial matters of the Shire.</p>
ISP documents	<p>Integrated Strategic Planning documents are a combination of the Shire's:</p> <ul style="list-style-type: none"> (a) Asset Management Plans; (b) Community Strategic Plan; (c) Corporate Business Plan; and the (d) Workforce Plan.
LGIS	Local Government Insurance Scheme
Member	In relation to a council or committee, a Council Member in the Act; Elected Member; or Councillor; or a member of the committee.
Preventative Action	A system to eliminate any cause(s) that would create a potential hazard or undesirable situation. Changes can be made or implemented to address an issue, hazard, or weakness in a system. Preventive action can also include ways to improve an organization's workflow or situation.

Term	Definition
Preventative Controls	Attempt to prevent or deter undesirable acts from occurring. They are proactive controls, designed to prevent a loss, error, or omission.
Regulations	<i>Local Government (Administration) Regulations 1996</i> <i>Local Government (Financial Management) Regulations 1996</i>
Shire	The Shire of Toodyay.
Shire President	A mayor or president elected by the Council from amongst the councillors.
Workers	Employees, contractors, and volunteers of the Shire as per the Work Health and Safety legislation (WHS) and regulations.

Policy Statement

The purpose of internal control is to provide assurance that the internal risks faced by the Shire are minimised or contained to acceptable levels in accordance with the Risk Tables contained within the Shire's Risk Management Policy.

Council ensures that the CEO is delegated responsibility for the day-to-day operation and financial management of the Shire.

The CEO ensures that appropriate and efficient internal controls are in place covering:

- (a) Staffing and segregation of duties;
- (b) Information technology;
- (c) Documented procedures and processes covering the recording, reporting and authorisation of transactions;
- (d) Monitoring performance and adherence; and
- (e) Legislative activities.

1. Key Focus Areas

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

- Strategic 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 the relevant legislation and regulations applicable to Local Government;
- Assets are secured and protected from unauthorised use;
- Records are complete, accurate, secure and reliable; and
- Risks are identified, assessed and mitigated where possible.

2. Internal Control

Effective Internal Control is achieved through the following steps:

2.1 Establishing an Appropriate Control Environment

It is the responsibility of all Members and Workers to comply with the Internal Control Policy, practices and procedures.

Members and Workers will value and be aware of the importance of internal control practices and organisational structure through:

- The existence and compliance with the Codes of Conduct;
- Adherence to the Values documented in the Strategic Community Plan;
- Members and Workers being appropriately trained to effectively perform their role; and
- Defined use of information technology as detailed in contracts, induction manuals, and/or the Code of Conduct.

2.2 Assessment of Risks

The Shire shall follow a pro-active risk management approach that includes regular review and identification of the risks that exist within the Shire's activities in accordance with the Shire's Risk Management policy.

2.3 Implementation of Control activities

Control activities may include:

- (a) preventative control measures such as training programs, improvement of and thorough review of contract conditions; regular review of policies and procedures, and security to avoid undesirable events from occurring.
- (b) Detective control measures such as audits, review, and reconciliation processes to detect and subsequently correct undesirable events that have already occurred.
- (c) Directive processes such as Business Continuity Plans, Disaster Recovery Plans, insurance, education, and disciplinary procedures to encourage continuity and mitigation of risk.

2.4 Monitoring and Review Activities

Management systems and internal activities need to be monitored to assess the quality of their performance over time. This may include:

- An internal audit program that reviews and monitors the Shire's activities;
- A Risk Register that is monitored with risks having a rating of catastrophic or major being reviewed on a regular basis to ensure that relevant treatment plans are implemented and work effectively;
- Regular monitoring of the objectives and activities contained within the Shire's ISP documents, to ensure desired outcomes are being achieved;
- Risk Management reviews undertaken annually by LGIS; and
- Completion of an annual Compliance Audit Return;

3. Outcomes

The following measures can be used as indicators to determine if the operating internal control environment is functioning successfully:

- Equitable, efficient and effective use of resources (people, equipment and funds);
- Minimise discrepancies, anomalies and irregularities, or prompt detection and correction if they occur;
- Assets are used only for authorised purposes and are not subject to improper removal or sale;
- All financial and non-financial data, records, databases and other material are complete and accurate, protected from loss or damage and capable of being readily accessed to continue the smooth operation of the Shire's business; and
- The nature and impact of inherent and residual risks have been identified, assessed and contained to an acceptable level.

4. Roles and Responsibilities

4.1 Council

Council is responsible for the Internal Control Policy.

4.2 Chief Executive Officer (CEO)

The CEO is accountable to Council for the development and implementation of appropriate systems to achieve accountability and integrity, to provide support for the development and implementation of appropriate systems and to report to the Council on internal control effectiveness.

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

4.3 Workers

Workers are responsible for conducting their duties in accordance with internal control policies, procedures and practices of the Shire. They are also responsible for reporting to Management instances where they consider that internal control procedures are inadequate or are not being met.

Reference Information

- [Introduction to Local Government Accounting](#) – 4.4 Internal Control and Risk Management
- Local Government Operational Guideline No. 9 – [Audit in Local Government](#)
- [Register of Delegations](#) – Delegation CS2 Investment of Surplus Funds;
- [Purchasing Policy \(FIN3\)](#).
- [Long-Term Financial Plan Guidelines](#) – Integrated Planning and Reporting – Department of Local Government, Sport and Cultural Industries.
- [Risk Management](#) (ADM18).

Legislation

- *Local Government Act 1995*
- *Local Government (Financial Management) Regulations 1996.*
- *Local Government (Audit) Regulations 1996*
- *Financial Management Act 2006*
- *Records Management Act 2000.*

Associated documents


Codes of Conduct

Risk Management policy

Version control information

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Archived antecedent documents and previous versions	25 November 2014 OCM (CRN. 344/11/14) WA Local Government Accounting Manual edition 3, section 7 superseded by Introduction to Local Government Accounting which can be found at: - https://www.dlgsc.wa.gov.au/local-government/local-governments/support-and-advice/financial-policy-and-accounting