



Internal Control Policy

Policy Classification	Council Policy
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Applicable Legislation:	<i>Local Government Act 1999</i> <i>Local Government (Financial Management) Regulations 2011</i>
Related Policies or Documents:	Code of Conduct for Council Employees Better Practice Model – Internal Financial Controls for South Australian Councils Risk Management Framework Risk Management Policy
Associated Forms:	NA
Responsible Manager:	Chief Executive Officer Directors Finance Department
Approved by Council:	14 June 2022
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Internal Control Policy

1. Preamble

- 1.1. Kangaroo Island Council is committed to developing and maintaining fundamental mechanisms within the organisation that are necessary to ensure that its financial and non-financial operations are conducted in an orderly and efficient manner, in order to achieve its objectives, to safeguard Council's assets and to secure (as far as possible) the accuracy and reliability of Council records. Policies and work practices contribute to ensuring the assets and resources of the Council are properly managed and maintained.

2. Purpose

- 2.1. This policy seeks to define the above operations, including;
-) Assessing and containing the risks faced by Council at an acceptable level.
 -) Detecting and correcting irregularities.
 -) Ensuring the Council's Strategic Plans, objectives and goals contained therein are achieved.
 -) Preventing misuse or misappropriation of resources as well as ensuring that resources are acquired economically and employed efficiently.
 -) Adopting quality business processes and emphasising continuous improvements.
 -) Ensuring the actions of all Council officers (including Council members, senior management and staff) are in compliance with Council policies, standards, plans, procedures, and all relevant laws and regulations.
 -) Safeguarding assets against loss or misuse.
 -) Ensuring the accuracy and completeness of accounting records that reliably reflect the conduct of Council.
 -) The timely preparation of reliable financial and performance information.

3. Scope

- 3.1. The system of internal control extends beyond the matters which relate directly to the functions of the accounting and financial systems, and relates to every aspect of Council's operations.
- 3.2. Internal control is not risk management and is not concerned with external risks faced by the Council, such as potential disasters or political, economic and environmental risks.
- 3.3. The external auditor places a significant degree of reliance on internal controls when determining whether the accounting records present a true and fair view of the transactions of the business for the relevant time frame.

4. Definitions

- 4.1. **CEO** means the Chief Executive Officer of the Kangaroo Island Council.
- 4.2. **Council** means the Elected Body.
- 4.3. **Kangaroo Island Council (KIC)** means the administration.

- 4.4. **Accounting controls** includes safeguarding assets, and the production of reliable financial information. This includes;
- proper segregation of functional responsibilities,
 - a system of authorisation, recording and procedures adequate to provide accounting control of assets, liabilities, revenues and expenses,
 - sound practices in the performance of duties and function by each of Council's departments,
 - Risk management practices and operational framework and procedures to ensure staff have capabilities commensurate with responsibilities.
- 4.5. **Control environment** comprises organisational structures and culture, and includes; management operating style, levels of responsibilities and authorities, audit practices, use of information technology, and human resource management practices. The control environment requires an evaluation of the risks to which the Kangaroo Island Council's operations are exposed, and includes both financial and non-financial risks.
- 4.6. **Control procedures** comprise those policies and procedures established to ensure that the objectives of Council are achieved in an efficient and effective manner. These include document control, reconciliations, physical access controls, protection of assets, financial accounting procedures, information technology controls, budgeting, reporting and management controls.
- 4.7. **Information systems** comprise all of the recording and reporting methods used by Council to maintain accountability for assets, liabilities, income and expenses and for the achievement of the objectives of the Kangaroo Island Council.
- 4.8. **Internal controls** is defined in Auditing Standard [ASA 315](#)⁴ (paragraph 4 c) as: the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control."
- 4.9. **Internal financial controls** are the internal controls that are specifically related to financial activities, management and reporting.
- 4.10. **Organisational controls** promote operational efficiency and encourage adherence to management policies. These controls have little impact on the financial records, and include established decision-making framework underpinned by strategic and business plans and employee job descriptions, formal systems of delegation, safe work practices for employees, proper recruitment, selection and induction of new employees, protection of confidential information, and procedures for declaring a conflict of interest.

5. Policy Statement

5.1. Internal controls

5.1.1. Internal control is one of the foundations of a robust corporate governance framework.

5.1.2. Internal control is integral to risk management. 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 the internal risks faced by the Kangaroo Island Council are minimised or contained to acceptable levels and creates an internal environment focused on continuous improvement.

5.1.3. Internal control is based on three elements, the control environment, information systems and control procedures.

5.1.4. Council utilise two types of internal controls:

- Organisational controls
- Accounting controls

5.2. Organisational Controls

5.2.1. The objective of organisational controls is to promote operational efficiency and encourage adherence to management policies in all areas and departments of Council's operations. These controls have little impact on the financial records. However, organisational and accounting controls are not mutually exclusive.

5.2.2. Examples of organisational controls include:

-) Established decision-making framework underpinned by strategic and business plans and employee job descriptions.
-) Formal systems of delegation.
-) Safe work practices for employees.
-) Proper recruitment, selection and induction of new employees.
-) Protection of confidential information.
-) Procedures for declaring a conflict of interest.

5.3. Accounting Controls

5.3.1. The internal control policies and procedures for internal financial control have been developed giving regard to the requirements of the Better Practice Model – Internal Financial Controls.

5.3.2. The objectives of accounting controls are the safeguarding of assets, and the production of reliable financial information. This can be achieved by ensuring proper accrual accounting practices, as defined by the relevant accounting standards and all relevant local government acts and regulations, are consistently applied across the whole organisation.

5.3.3. The general characteristics of a satisfactory system of accounting internal controls include:

-) Proper segregation of functional responsibilities.
-) A system of authorisation, recording and procedures adequate to provide accounting control of assets, liabilities, revenues and expenses.
-) Sound practices in the performance of duties and function by each of Council's departments.
-) Risk management practices and operational framework and procedures to ensure staff have capabilities commensurate with responsibilities.

5.3.4. All internal control systems should incorporate these essential characteristics; however the methods by which they are implemented will vary depending on the types of assets involved and the nature and complexity of Council's operations.

5.3.5. An internal audit function should be undertaken by relevant officers of the organisation on a semi-regular basis to ensure the whole organisation is following defined and appropriate procedures – both financial and organisational.

5.3.6. Responsibility for the development and implementation of appropriate policies and procedures for the internal control of accounting functions rests with the management of the Kangaroo Island Council.

5.4. External Audit

5.4.1. Council is required by section 127(3) of the Local Government Act 1999 to ensure that its financial statements are subject to an external audit each financial year.

5.4.2. It is an expectation that the auditors fulfil the basic legislative requirements in respect to financial position and financial statements of Council, and also undertake checks that enhance the required accountability and responsibility processes of Council.

5.4.3. An external audit enables comprehensive testing of Council's internal control systems, to satisfy legislative requirements and Council's public accountability obligations.

6. Review and responsibilities

6.1.1. Council must ensure that an internal control framework is implemented and maintained by the CEO, and the CEO is responsible for the internal control policy of Council.

6.1.2. The ChiefCEO is accountable for developing and implementing such internal controls in line with the Better Practice Model – Internal Financial Controls, to ensure that the objectives of Council are achieved in an orderly and efficient manner, ensuring that the assets and resources of the Council are safeguarded from loss or improper use, and to advise the Elected Member Body that a system of internal control is in place and adhered to. This information is to be presented as an annual report to the Elected Members detailing Council's ability to adhere to the above requirements.

6.1.3. The CEO and Mayor of Council must sign the financial statements in regard to internal controls as required by Local Government (Financial Management) Regulations 2011.

6.1.4. Council's management is responsible for the development of adequate internal controls and for their implementation, evaluation and revision on an ongoing basis in respect to all of the functions of Council under their control.

6.1.5. Council employees must conduct their duties in accordance with internal control policies, procedures and practices of Council. They are responsible for reporting to management instances where they consider that internal control procedures are inadequate or are not being complied with. Council and its Audit & Risk Committee will review this Internal Control Policy every four years.

7. Availability and Grievances

This Policy will be available for inspection at the Council's Offices 43 Dauncey Street, Kingscote during ordinary business hours and via the Council's website: www.kangarooisland.sa.gov.au

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

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer, Kangaroo Island Council, PO Box 121, Kingscote SA 5223.

SIGNED:



Chief Executive Officer

Date: 14 June 2022

History:		
Date Reviewed:	Version:	Reason for Amendment:
2010	Version 1	Policy Adopted
20 January 2014	Version 2	Policy Reviewed & Adopted
13 October 2015	Version 2	Annual Policy Review by Council 2015-16
21 June 2016	Version 3	Annual Policy Review by Council 2016-17
13 June 2017	Version 4	Annual Policy Review 2017-18 Ref# C189:2017
12 June 2018	Version 5	Annual Policy Review 2018-19 Ref# C176:2018

11 June 2019	Version 6	Annual Policy Review 2019-20 Ref# C214:2019
12 May 2020	Version 7	Policy Review Ref: C232:2020
14 June 2022	Version 8	Included references to the LGA Better Practice Model – Internal Financial Controls for South Australian Councils