



BUNBURY HARVEY
REGIONAL COUNCIL
HARVESTING RESOURCES FROM YOUR WASTE

INTERNAL CONTROL



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INTRODUCTION

Internal control is a key factor in ensuring that the Council is effectively and efficiently managed and that its resources are not misused or misappropriated. These controls are integral to the effective risk management of activities and to ensure there are appropriate policies and procedures that promote the achievement of Council's goals and objectives.

Internal control is not limited to financial matters. 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 defined in respect to the financial, information and technological, human resource, and legislative activities of Council.

In establishing and assessing internal control practices it is necessary to recognise that in practical terms a certain level of risk will exist. The purpose of internal control is to provide assurance that the internal risks faced by Council are minimised or contained to acceptable levels.

PURPOSE

Consistent with the objectives and requirements of the *Local Government Act 1995 and Local Government (Financial Management) Regulations 1996*, Council has a responsibility to ensure that its activities are conducted in an efficient, compliant, risk effective and transparent manner that is compliant with its policies and procedures.

This Policy describes the purpose and major factors to be considered in the development of an effective internal control framework. It provides a framework to assist in the development of policies, practices and procedures to collectively ensure that the financial and non-financial activities of Council are conducted in a proper manner.

SCOPE

This policy is intended to provide clear direction to all Council members, management and staff and external contractors to ensure that the Council is effectively managed and that its resources are not misused or misappropriated.

DEFINITIONS

Internal Control is broadly defined as a process supported by the Organisation's policies, procedures and practices which collectively provide a reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability and accuracy of financial data
- Compliance with policies, procedures, legislation and regulations

It recognises that a 'system' of internal control extends far beyond those matters which relate solely to the financial matters of the organisation.

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.

Controls can be divided into 3 categories:

Preventative

Processes put in place to avoid undesirable events from occurring i.e.:

- Training programs
- Contract conditions
- Policies and Procedures
- Security measures.

Detective

Processes put in place to detect and subsequently correct undesirable events that have already occurred i.e.:

- Audits
- Reviews
- Reconciliation

Directive

Processes put in place to encourage a desirable event to occur i.e.:

- Business Continuity Plans
- Disaster Recovery Plans
- Insurance
- Education and disciplinary actions

This internal control framework is based on a pro-active risk management approach that includes regular review and identification of the risks that exist within Council's activities. Council will maintain an effective Risk Management Framework with internal controls included as an integral part of that framework. An appropriate internal control measure is applied to each key risk activity in order to reduce the inherent risk of that activity to an acceptable level.

An effective internal control environment focuses on the following key areas to provide an adequate level of assurance over Council's activities:

Organisational Culture

It is the responsibility of each Employee to comply with the Internal Control Policy, practices and procedures.

Elected Members and Employees 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 Council's Strategic Plan;
- Employees being appropriately trained to effectively perform their role;
- Defined use of information technology as detailed in the Internet, Email and Computer Use Policy;
and
- Striving for best practice Human Resource management procedures and practices.

Control Activities

Policies and procedures that address business risks and provide detailed guidelines for carrying out activities include:

- Document controls;
- Reconciliations and verifications;
- Physical asset controls and regular revaluation;
- Financial accounting procedures including segregation of duties;
- Information technology controls;
- Budgeting and reporting procedures;
- Record and data security; *and*
- Risk assessments.

Monitoring Activities

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

- Office of the Auditor General performing a review and monitoring role;
- An internal audit program that reviews and monitors Council'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;
- Reviewing the adequacy and implementation of Council's Strategic Management Plans, including the LTFP (Long Term Financial Plan) and Annual Business Plan and Budget;
- Regular monitoring of the Strategic Plan objectives and activities to ensure desired outcomes are being achieved;
- Reviewing documents that are provided to the Community for accuracy and completeness, including Council policies, budget reviews, Annual Financial Statements and the Annual Report;
- Risk Management reviews undertaken annually by the Local Government Insurance Scheme; *and*
- Completion of an annual Compliance Audit Return;
- Reviewing, assessing and reporting on controls contained within the Better Practice Model – Internal Financial Controls.

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 Council's business; *and*
- The nature and impact of inherent and residual risks have been identified, assessed and contained to an acceptable level.

To ensure that Council is meeting its legislative requirements, BHRC will ensure that the relevant controls outlined in the WA Local Government Accounting Manual and *Local government (Financial Management) Regulations 1996* and are reviewed, assessed and reported on a regular basis via an annual financial system audit undertaken by an independent auditor. This will assist in verifying that Council's internal financial controls are operating efficiently and as required through the financial year.

ROLES & RESPONSIBILITIES

Council

The Elected Member body is responsible for the Internal Control Policy.

Office of the Auditor General (OAG)

The OAG provide independent review and advice to Council in relation to the organisation's approach to corporate governance matters including internal controls.

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 also responsible for the development of adequate internal controls and their implementation, evaluation and revision on an ongoing basis in respect to all of the functions of Council under their control to ensure as far as practicable that:

- Financial records and other relevant databases completely and accurately reflect the actual operational activities and the timely preparation of reports;
- Assets are safeguarded from unauthorised use or disposal; *and*
- Irregularities are prevented, or detected and corrected if they occur.

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

Employees

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.