

Better Practice Model – Internal Financial Controls for South Australian councils

June 2022

Prepared by the Internal Controls Work Group for and
on behalf of South Australian Local Government
Financial Management Group Inc. (SALGFMG)

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Inherent Limitations

The guidance provided is advisory in nature and has not been conducted in accordance with the standards issued by the Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions under these standards are expressed. Recommendations and suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made, and the information and documentation provided. We have not attempted to verify these sources independently unless otherwise noted within the report.

Statement of Disclaimer

This Framework has been prepared by the South Australian Local Government Financial Management Group Inc. (SALGFMG). The Framework is intended to provide general information on financial controls and does not purport to be comprehensive nor is it intended to replace professional advice for your council or for your specific circumstances. The contents do not constitute advice and should not be relied upon as such. If advice concerning individual circumstances of your council or other expert assistance is required, the services of a competent professional adviser should be sought.

This Framework cannot be regarded as a complete list of all financial risks and controls relevant to councils within South Australia and should not be relied upon as a substitute for action that councils should take to ensure that Section 125 of the *Local Government Act 1999* requirements are met:

125—Internal control policies

- (1) *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.*
- (2) *The policies, practices and procedures of internal financial control under subsection (1) must be in accordance with a standard or document (such as a model relating to financial controls) adopted by the regulations.*

As detailed in section 99 (1) (g) of the *Local Government Act 1999*, it is the responsibility of the Chief Executive Officer of each council:

“to ensure that the assets and resources of the council are properly managed and maintained”.

No responsibility or liability to any third party is accepted by the SALGFMG as the Framework has not been prepared, and is not intended, for use by third parties or for any other purpose.

Local Government Reform

There are significant changes occurring to the Local Government Act as a result of the *Statutes Amendment (Local Government Review) Act 2021*. The amendments are commencing in stages via a number of proclamations. This document has been reviewed in 2022 to take into account the amendments that are commencing in late 2021/early 2022.

There are a number of other changes that are currently anticipated to commence in November 2023 however as these proposed changes cannot be definitive until the relevant commencement proclamation has been issued and published, this document will be reviewed again at that time. Until that time any reference to wording from the Act is to the version with which councils must currently comply until such time as the relevant section commences.

The Office of Local Government website provides a marked up version of the Local Government Act 1999 which makes it easier to understand what has and/or may change:

<https://www.agd.sa.gov.au/documents/office-of-local-government/local-gov-reform/Marked-Local-Government-Act-1999.pdf>

Based on current advice, the relevant section by section commencement plan is:

Section	Topic	Details	Commencement
125(2)	Internal control policies	Regulation to require compliance with <i>Better Practice Model – Internal Financial Controls</i> , which is already an adopted standard in the LG (Financial Management) Regulations 2011	Commenced 6 January 2022
125(3)	Internal control policies	Internal controls – requirement for risk management policies, systems and procedures	Not commenced Anticipated Nov 2023
125A	Insertion of section 125A	Internal audit functions – consultation prior to appointing person to be primarily responsible for internal audit function	Not commenced Anticipated Nov 2023
126	Audit Committee	Audit and risk committee – changes to name, purpose, composition, and function	Not commenced Anticipated Nov 2023
126A	Insertion of section 125A	Regional audit and risk committee – changes to name, purpose, composition, and function	Not commenced Anticipated Nov 2023
128(2)(2A)	Name change	Audit Committee to be known as Audit and Risk Committee	Not commenced Anticipated Nov 2023
128(6)	Audit Firm	The intent of this amendment is that council will change their Auditor every five years and to prevent council from reappointing an Auditor until at least five years have passed since they last held the office There are transitional regulations which will allow councils to honour existing contracts with their Auditor	Commenced 6 January 2022
129	Conduct of Audit	No audit required if the Auditor-General has undertaken audit for a financial year Auditor-General may recover reasonable costs	Commenced 20 September 2021

1. Introduction

1.1. Overview of Internal Control

Internal control is one of the foundations of a robust corporate governance framework. The Committee of Sponsoring Organisations (COSO) broadly defines internal control as:

“a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- *Effectiveness and efficiency of operations; and*
- *Reliability of financial reporting; and*
- *Compliance with applicable laws and regulations.”*

Section 125 of the *Local Government Act 1999* (“the Act”) requires that:

- (1) *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.*
- (2) *The policies, practices and procedures of internal financial control under subsection (1) must be in accordance with a standard or document (such as a model relating to financial controls) adopted by the regulations.*

As part of the review of the Local Government Act and subordinate regulations, commencing 6 January 2022, regulation 10A has been inserted into the *Local Government (Financial Management) Regulations 2011*.

The regulation inserts that, for the purposes of section 125(2) of the Local Government Act, the policies, practices and procedures of internal financial control of a council must be in accordance with the *Better Practice Model—Internal Financial Controls* (i.e., this document).

The *Better Practice Model – Internal Financial Controls* was already an adopted standard in the *Local Government (Financial Management) Regulations 2011*, however it will now be a document with which councils are **required** to comply.

This Framework provides guidance which councils can use alongside their existing risk framework to aid in developing a risk based approach to the identification and assessment of financial risks and internal controls, and create a strong internal environment focussed on continuous improvement. This will also assist in ensuring compliance with the provisions of the *Local Government Act 1999*.

It is important to note that while this Framework considers financial risks only, the approach should be seen as forming one part of council’s overall risk management and governance framework. Whilst the Framework excludes non-financial risks, consideration should also be given to any financial implications that these risks could have on the entity.

1.2. Audit of Internal Financial Controls

Section 129(1)(b) of the *Local Government Act 1999* (“the Act”) requires a council’s external auditor to audit:

'the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money,

the acquisition and disposal of property and the incurring of liabilities'.

Under section 129(3)(b) of the Act they must provide:

'an audit opinion as to whether the controls audited under subsection (1)(b) are sufficient to provide reasonable assurance that the financial transactions of the council have been conducted properly and in accordance with law'.

External auditors should apply ASAE 3000 Standard on Assurance Engagements and ASAE 3150 *Assurance Engagements on Controls* in conducting their audit under section 129(1)(b) of the Act.

Pursuant to Section 126(4)(c) of the Local Government Act 1999, council Audit Committees are responsible for reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis. The provision to council Members of reports by the Audit Committee concerning internal controls is an important part of good practice financial governance.

Auditors should have regard to the application of the risk based approach applied by council in performing their testing and forming their opinion under section 129(3) of the Act. The auditor should obtain sufficient appropriate audit evidence pertaining to controls for each risk to determine if the internal financial controls over that risk provide sufficient assurance that the financial transactions of the council have been conducted properly and in accordance with the law.

As part of the recent review of the Local Government Act:

- commencing 20 September 2021, section 129(1a) has been inserted which provides that if the Auditor-General undertakes an audit under the *Public Finance and Audit Act 1987* of financial statements and controls of a council for a financial year then the auditor of the council is not required to undertake an audit of, provide an opinion or advice on, or report to the Minister on, those statements or controls
- commencing 6 January 2022, section 128(6) of the Local Government Act has also been amended. The intent of this amendment is that council will change their Auditor every five years and prevents council from reappointing an Auditor until at least five years have passed since they last held the office. There are transitional regulations which allow councils to honour existing contracts in place at commencement.

1.3. Internal Financial Controls

Internal financial control, as a part of council's broader internal control processes, is designed to assist the council in addressing the risk of fraud and error, improving reliability of financial reporting and compliance with laws, regulations and policies. It focuses on council's financial processes and functions that deal with, but are not limited to, budgeting, financial reporting, transaction processing, financial delegations and treasury management.

Internal financial control will be instrumental in:

- Safeguarding council assets
- Ensuring reliability of both financial and non-financial reporting
- Complying with legislation and council policies
- Promoting the effectiveness and operational efficiency of council

Internal control will not remove all financial risk but is a means of managing risk and reducing the likelihood and consequence of adverse events. A sound system of internal financial control is essential for a council to ensure that its resources are allocated in the most appropriate manner, operational and financial objectives are being met and to facilitate compliance with the accountability provisions of the *Local Government Act 1999*.

1.4. Three Lines of Defence

A council’s internal control environment typically includes the following components:

- Structure of the organisation
- Culture of the organisation
- Knowledge, skills and experience of employees
- Processes employed by the organisation to conduct business

Management is primarily responsible for managing organisational risks on a day-to-day basis and thereby forms the first line of defence for the council. Management achieves this by establishing an appropriate internal control environment including the relevant internal financial controls addressing the underlying financial accounting assertions.

The second line of defence is composed of the corporate functions that establish the policies and procedures which govern organisational activities and processes. This is established through monitoring activities such as self-assessment of the adequacy of internal controls on an aggregated level which establishes the boundaries and expected standards by which the business operates.

Finally, the third line of defence consists of internal audit which is charged with the responsibility to perform an objective assessment on the performance of control activities and business processes. An internal audit function is not a mandatory requirement for councils, however the absence of such a function may increase the consequence of control failure.



Additionally, council’s Audit Committee, external auditor and the Local Government Act 1999 and Regulations play an important part in framing the council’s governance and internal control environment.

Legislation and regulation set the framework for the governance and internal control environment by establishing requirements designed to improve the environment as it is developed. The Audit Committee and external auditors are also able to provide independent and objective feedback and

assessment of the internal controls in relation to the financial reporting processes of council as they relate to the three lines of defence.

1.5. Internal Financial Control Environment

The council should establish an internal financial control environment. This should be based on the following steps, and incorporate a suite of internal controls, policies and procedures that create a framework for a robust and strong environment within the organisation.

- 1) Identification of Financial Risks
- 2) Assessment of Inherent Risk (the level of risk associated with the particular issue before the implementation of related controls)
- 3) Evaluation of Control Activities
- 4) Assessment of Residual Risk (risk that remains with council over a particular issue after controls have been implemented and assessed for their effectiveness)
- 5) Address Residual Risks and Control Activities
- 6) Ongoing Monitoring of Internal Financial Controls.

The above approach is detailed further at section 1.7.

The steps above should be performed on a regular basis, with steps 1 to 5 performed at least annually, noting steps 1 and 2 need only be considered at a high level to identify if there have been any changes within council or to council's external environment (e.g., new legislation) that would result in new or revised financial risks or a change in the assessment of inherent risk associated with a financial risk.

Council's internal control framework should be designed as a living process aimed at embedding a culture of continuous improvement within the council. This is achieved by performing regular assessments of risk and identification of areas that are deficient or where improvement may be possible, and implementing processes and controls that address these areas.

1.6. Risk Based Approach to Internal Financial Controls

Given all councils have limited resources, it is important to focus on the key financial risks and controls. Councils should design and implement internal financial control activities and monitoring systems that prioritise extreme and high financial risks as identified by the council's risk tolerance framework.

This can be achieved by applying a risk based approach to the Risk and Control Assessment Process documented at 1.7.

By applying a risk based framework, councils should document and assess the internal financial controls that relate to a particular financial risk to the extent that they mitigate that risk to an acceptable level.

Councils should apply judgment as to the quantum of controls to document in relation to each financial risk. Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level. The controls implemented will depend on the inherent risk assessment, the residual risk given controls already in place and the risk tolerance of the organisation. If councils can demonstrate through their self-assessment that particular controls in place reduce a particular financial risk to a low level it is not considered necessary to document further controls in relation to that risk.

The council's internal control structure comprises three elements: the financial accounting system; control procedures; and the control environment. It is important to note that while all these elements

are applicable to councils of all sizes, the degree of formality and the specifics of how the components are implemented may vary considerably for practical and sound reasons and highlights the inherent weaknesses and limitations of internal control. As stated in the COSO Integrated Framework,

“An internal control system, no matter how well conceived and operated, can provide only reasonable—not absolute—assurance to management and the board regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the system. Another limiting factor is that the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.”

Councils should also consider liaising with their internal and external auditors as part of this process to validate that the internal financial controls implemented are sufficient to mitigate the risks.

1.7. Risk and Control Assessment Process

The risk management methodology outlined below has been adapted from the Australia / New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009) (“the Standard”) to provide a structured approach for councils. This methodology will assist in the councils risk management processes with particular emphasis on the following:

- Identifying the key financial risks facing the organisation
- Assessing whether the associated internal controls are effective
- Identifying where further controls may be required.

This Framework focuses on the risks specifically of a financial nature, with control assessment worksheets provided to further assist in the application of the risk management methodology. The key financial risks identified have been grouped under relevant risk category and business processes. These risks are a guide only, with the identification of the actual risks relevant for each council being a fundamental component of the risk management practices of each council.

For each risk the Framework identifies the possible control measures that are typically in place to mitigate the risks identified, however it is important to note that no control is considered mandatory for councils but are provided as guidance on the likely controls that exist or could be implemented to mitigate a particular risk. Councils should tailor the appropriate controls to reflect their individual circumstances in order to demonstrate the existence of a set of relevant controls to ensure that inherent financial risk is mitigated through the application of those controls to an acceptable level of residual risk, and to meet the requirements of the *Local Government Act 1999* and Regulations.

If the residual financial risk is at an acceptable level then there is no need to implement further internal controls, and there may be an opportunity to reduce the controls in place and focus resources to areas where the residual risk requires further mitigation. Should the residual financial risk not be at an acceptable level, then the council should review the controls identified in the Framework as a starting point to identify further controls for implementation. The purpose is to reduce the residual risk to an acceptable level, noting that this may form part of the control assessment action plan.

To ensure accountability each control needs to be assigned to an assessing officer and reviewing officer. Typically, the assessing officer is the person performing the task or function (e.g., Financial

Accountant) and the reviewing officer the person reviewing completion of the task or function (e.g., Financial Accountant’s Line Manager).

Management should apply the following methodology when performing their assessment of financial risk and internal controls.

Step 1: Identify Risks

The first step is to identify the key financial risks facing the council. The aim of the risk identification process is to consider all finance-related risks which might affect the achievement of the council’s objectives and operations. Comprehensive identification of risks is important because a potential risk not identified at this stage may not be included in further analysis.

The control assessment worksheets included within this Framework provide details of the activities and financial risks that are expected to apply to all councils. These should be used as a starting point for the identification of financial risks but are not intended to be an exhaustive list. councils should include additional risks if they are considered relevant to their activities.

Step 2: Assess Inherent Risk

Once the key financial risks have been identified they are analysed in terms of how likely the risk event is to occur (likelihood) and the possible magnitude (consequence) of the risk event. From this analysis the level of inherent risk can be determined. The inherent risk represents the level of risk associated with the particular issue before the implementation of related controls. That is, councils should not consider any of the controls that are in place in their assessment of inherent risk.

Councils should refer to their own risk assessment matrix when assessing inherent risk to arrive at a rating based on the likelihood and consequence of the financial risk occurring. An example risk matrix detailing the suggested parameters for quantification of likelihood and consequence as provided in the Standard is provided below, with further details of the parameters for likelihood and consequence included in Appendix A.

Consequence \ Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	E	Moderate	High	High	Extreme	Extreme
Likely	D	Low	Moderate	High	Extreme	Extreme
Possible	C	Low	Low	Moderate	High	Extreme
Unlikely	B	Low	Low	Low	Moderate	High
Rare	A	Low	Low	Low	Moderate	High

Step 3: Evaluate Control Activities

The next step is to identify and document the control activities in place and evaluate the appropriateness, design and effectiveness of these controls on a scale from 1 – 5. A suggested control effectiveness rating scale is provided below. An effectiveness rating should be provided by both the assessing officer (typically the person performing the function) and the reviewing officer (typically the person reviewing completion of that task or function such as the line manager), along with commentary as to the basis for the assessment on that rating.

The worksheets contained in this document detail suggested core and additional controls that relate to each risk. The controls are classified as core and additional with the intention being that the

suggested core controls are likely to be more important or critical. The worksheets may be amended to reflect the council's unique operating environment. This may be achieved by modifying, removing or including alternative controls.

It should be emphasised that the suggested 'core' controls are not intended to depict a minimum list of controls required but may provide a suitable reference point for considering the appropriate internal financial controls for the council.

Ultimately councils should aim to implement relevant control activities which result in an acceptable level of residual financial risk.

Definitions of Control Effectiveness Ratings	
1. Ineffective	During the period, the control has not been implemented as described. Urgent management action is required to implement the described control processes.
2. Requires significant improvement	During the period, the control has been implemented as described, but with significant deficiencies in the consistency or effectiveness of implementation. Significant management action required to implement processes to improve the effectiveness of the control.
3. Partially effective	During the period, the control has been implemented as described, but with some deficiencies in the consistency and/or effectiveness in which it has been applied.
4. Majority effective	During the period, the control has been implemented as described and in the majority of cases has been consistently and/or effectively applied. There is potential to enhance the effectiveness of the control, but only with minor adjustments.
5. Effective	During the period, the control as described has been fully implemented and has in all cases has been consistently and/or effectively applied.

Where a control activity has been given an effectiveness rating of 3 or below by the assessing or reviewing officer, some level of explanation should be provided for the deficiency in the control activity, and consideration of establishing an action plan to address this. The purpose of the action plan is to document council's intention to address the deficiency.

Step 4: Assess Residual Risk

Once the control activities have been assessed and reviewed the residual financial risk can be determined. The residual risk represents the risk that remains with council after controls have been implemented and assessed for their effectiveness.

Council should consider the likelihood and consequence of a given financial risk occurring with reference to the effectiveness of the controls in place in relation to that risk as documented. The same risk assessment framework as in step 2 should be used as part of this step.

Step 5: Treat Risks and Control Activities

Together with the action plans from step 3, councils should consider the acceptability of the residual financial risk. If a residual risk is assessed at an acceptable level then no further action is required. However, should the residual financial risk be at an unacceptable level, the council should identify

further controls to be implemented. Step 3 should then be performed and the residual financial risk reassessed (step 4) to ensure that the risks are being managed at an acceptable level.

Step 6: Ongoing Monitoring

Once residual financial risk is at an acceptable level management should regularly monitor controls to provide ongoing assurance of the adequacy of the control environment. This should be conducted applying a risk based approach. Particular focus should be given to areas where control deficiencies have been previously identified and where there is a heavy reliance on internal financial controls to mitigate significant inherent risks. It is expected that councils will be able to justify their approach to the monitoring of particular controls, which could take the form of revised self-assessments, increased frequency of assessment of controls related to specific risks and/or spot checking the operation of particular controls.

The monitoring should seek to target controls where monitoring activities provide the greatest value to council in terms of risk management and/or continuous improvement.

The use of an internal audit function can also be a useful mechanism to independently test the effectiveness of a control in conjunction with the work undertaken by external auditors in evaluating the effectiveness of the internal control environment.

Additionally, as part of the monitoring process, councils should consider whether the controls in place are the most effective to address the relevant financial risks and improvements that can be made to the overall control environment.

1.8. Guidance for Implementation of Internal Control

A number of initiatives can be adopted by councils to implement the process for risk assessment and internal financial controls assessment within the entity. Councils should consider the matters listed below in designing their framework for risk identification and control assessment.

Education

To embed the process of assessment and continuous improvement in respect of internal financial controls within the culture of council, it is important that the process is owned by the whole entity, not just the Finance department. Education of council staff will therefore be critical to enable this to occur. Depending on the size and experience of council's staff, this could take a number of forms including:

- Workshops with staff
- Training/information sessions
- Other communications (e.g., web based or via email/intranet).

The aim of the education should be to enable staff to develop an understanding of the nature of internal controls and an understanding of the context in which the assessment of internal financial controls is performed. Additionally, it should provide them with the skills and understanding to perform the assessment in accordance with the Better Practice Model.

Setup of Internal Financial Control Framework

Focus should be given to the process of setting up the internal financial control framework that forms part of council's self-assessment process. A risk-based approach should also be applied here, with additional consideration given to the financial risks that are most important and critical to council's operations. A responsible officer who is knowledgeable and experienced within each specific financial area should be assigned the task of assessing the levels of inherent and residual risk pertaining to a particular risk residing within that area and identifying the appropriate suite of controls

that mitigate that risk. As part of this process the responsible officer should identify which controls are the most efficient and effective to mitigate the risk, noting that these may not necessarily be controls that are already in place within the entity. It is often valuable to obtain a broader perspective when setting up the internal financial control framework by inviting the responsible officers to conduct the risk assessment and identification of controls as a group in a workshop format.

Alignment with Corporate Risks, Policies and Procedures

The financial risks considered by council's self-assessment policy should be aligned with the corporate risks and risk register adopted by council. Responsible officers should ensure consistency between the corporate level risks and any equivalent or relevant risk assessments made within the framework of internal financial controls.

Documenting and updating policies and procedures that include elements of internal financial controls is also a key activity. These should be reviewed in conjunction with the control assessments to verify they are still accurate and up-to-date and reflect the control assessments made by council staff. Additionally cross referencing the relevant content within these policies to the control assessments and vice-versa will demonstrate the links between the assessments performed and the policies and procedures in place.

Documentation

To provide for an efficient process of internal review of self-assessments, and the subsequent audit, sufficient commentary and documentation (where applicable) should be included within council's self-assessment tool that demonstrates how the officer has concluded as to the effectiveness rating of a particular control. This could comprise:

Commentary in responses that detail how the officer has verified the effectiveness of a particular control.

Reference to supporting documents (i.e., policies/procedures/minutes/process flowcharts) that demonstrate the operation of a particular control.

Details or reference of specific testing performed that demonstrates the operation and effectiveness of a particular control.

The aim of the response should be to provide sufficient detail for an independent person to review and arrive at the same conclusion as the responding officer.

Liaising with Internal and External Auditors

Councils should be proactive in their discussions with their appointed external auditor in relation to matters pertaining to internal financial controls. An effective internal control framework should include ongoing communication between council and the external auditor. This can include:

- Application of risk-based approach to internal financial controls
- Deficiencies identified in internal financial controls
- Appropriateness of action plans to improve internal financial controls
- Recommendations by the external auditor for improvements to internal financial controls and their status
- Any issues identified in the design of the internal financial control framework or the assessment of internal financial controls.

This dialogue will help the process of continuous improvement within council and ensure that potential issues are identified and resolved in a timely manner prior to the annual audit of internal financial controls.

Where in place, council's internal auditor can also provide advice in respect of the internal financial control framework and assessment of internal financial controls.

1.9. Listing of Risk Categories & Associated Business Processes

The remainder of the Framework has been separated into a number of risk categories and business processes, based largely on standard Statement of Financial Position and Statement of Comprehensive Income account classifications and/or key business functions. Each of these sections includes an explanatory introduction and also suggests relevant principles, practices, key issues and options for councils.

It is envisaged that council staff will be able to apply appropriate internal financial controls within each section through risk management practices in order to develop an effective system of internal financial controls that specifically addresses their own particular requirements.

For each Risk category and Business process documented, the Framework provides guidance on key financial risks and a list of possible controls to mitigate these risks.

It should be noted that these possible internal financial controls are suggestions only and each council will need to consider its own operating environment and level of acceptable residual risk based on an assessment of the internal controls they have in place. The suggested list of controls provide a useful starting point and in some instances it is likely a council may have additional or alternate controls from the list of possible controls listed in the Framework that ensure the level of residual risk is acceptable to the council.

Risk Category	Business Process
Strategic Financial Planning	<ul style="list-style-type: none"> • Budgets • General Ledger • Statutory Reporting • Management Reporting
Assets	<ul style="list-style-type: none"> • Cash Floats and Petty Cash • Banking • Investments • Debtors • Inventory • Prepayments • Fixed Assets • Project Costing • Loans/Grants to Clubs/Community Groups
Liabilities	<ul style="list-style-type: none"> • Accounts Payable • Accrued Expenses • Borrowings • Employee Provisions • Taxation
Revenue	<ul style="list-style-type: none"> • Rates/Rate Rebates • Grants • User Pay Income – Fee for Services • Investment / Interest Income • Receipting • Other Revenue
Expenses	<ul style="list-style-type: none"> • Purchasing & Procurement • Payroll • Elected Members' Expenses • Credit Cards • Employee Reimbursements • Other Expenses
External Services	<ul style="list-style-type: none"> • Contracting
Financial Governance	<ul style="list-style-type: none"> • Governance

2. Strategic Financial Planning

2.1. Budgets

Introduction

Under Section 123 of the *Local Government Act 1999*:

- (1) *a council must have, for each financial year –*
 - a) *an annual business plan; and*
 - b) *a budget.*
- (7) *Each budget of a council must:*
 - a) *be considered in conjunction with the council's annual business plan (and must be consistent with that plan, as adopted); and*
 - b) *be adopted by the council after the council has adopted its annual business plan.*
- (7a) *A budget of a council may authorise the entry into borrowings and other forms of financial accommodation for a financial year of up to an amount specified in the budget.*
- (8) *an annual business plan and a budget must be adopted by a council after 31 May for the ensuing financial year and, except in a case involving extraordinary administrative difficulty, before 15 August for the financial year.*

Under Section 123 (13), “a council must, as required by the regulations, and may at any time, reconsider its annual business plan or its budget during the course of a financial year and, if necessary or appropriate, make any revisions”.

Councils may choose to adopt a number of budgets with varying periods (i.e., annual or longer-term) and varying bases (i.e., cashflow). Budgets must be structured in a way that assists council in meeting their “strategic management plan”. Effectively, the budget process represents a key element of council’s strategic financial plan which in turn constitutes a fundamental element of the overall strategic management plan. The Budget represents an important way of monitoring the achievement of council’s strategic objectives.

For an analysis of the issues associated with the strategic financial plan and budgets, please refer to the relevant sections in “A Framework for Local Government Financial Management” published by the Local Government Association of South Australia.

Key Issues/Risks

In relation to Budgets, the major risks faced by councils may be summarised as follows:

- 1) Budgets do not reflect strategic objectives
- 2) Unrealistic budgets
- 3) Budgets are inaccurately recorded due to variances between the budget adopted by council and its finance system
- 4) Budgets are not compliant with relevant legislation

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Budgets			Date:			
Risk No. 1:	Budgets do not reflect strategic objectives						
Description:	If Budgets are not linked to the objectives contained within the Annual Business Plan, there is an increased risk that the initiatives and outcomes of the Strategic Management Plans will not be achieved.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Process to establish the annual budget and ensure it is aligned with the Annual Business Plan and Strategic Management Plans, including Long Term Financial Plan and Asset Management Plans.	Core					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2 Council has in place a process which is delegated to council administration who are responsible to put in place a framework of internal controls over budget formulation and management.	Core					
3 Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet								
Risk Category:		Strategic Financial Planning			Prepared by:			
Business Process:		Budgets			Date:			
Risk No. 2:		Unrealistic Budgets						
Description:		Unrealistic budgets will lead to significant variances and the associated inefficiency in analysing and addressing the variances. If budgets are too aggressive, then this can have a detrimental effect on employees' morale. On the other hand, if budgets are set at easily attainable levels, this will result in council not maximising performance.						
Inherent Risk Assessment								
Likelihood		Consequence		Rating		Accept		
Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)	
1	Budgets and budget amendments are based on realistic and achievable assumptions at time of preparation.	Core						

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2 The adopted budget and budget amendments approved by council are reviewed and the impact on financial sustainability considered.	Core					
3 <i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Budgets			Date:			
Risk No. 3:	Budgets are inaccurately recorded due to variances between the budget adopted by council and its finance system						
Description:	If Budgets are inaccurately reported (i.e., processing errors occur when inputting the Budget into the financial system), this will result in actual performance not being measured accurately.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Access to edit Budget information and master file is restricted/limited to appropriately authorised personnel.	Core					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2 There is a process in place to review actual compared to budget and significant variances investigated.	Core					
3 There is a process in place to ensure the finance system reflects the original adopted budget and any changes adopted by council.	Core					
4 Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Budgets			Date:			
Risk No. 4:	Budgets are not compliant with relevant legislation						
Description:	If a council is not compliant with legislation it increases the risk of delays in delivering services and reduces the integrity of the budgeting process with the community.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	The process to establish the annual budget and any budget amendments are compliant with the <i>Local Government Act 1999</i> and associated Regulations.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	The original budget and any budget amendments must be made in accordance with the <i>Local Government Act 1999</i> and associated Regulations.	Core					
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

2.2. General Ledger

Introduction

Given that the financial information contained within the General Ledger is the basis of the annual financial statements and management reports, it is imperative that councils ensure that the internal financial controls surrounding the General Ledger are operating effectively. The development and implementation of effective internal financial controls in relation to the General Ledger is one important way that councils can fulfil their statutory obligations under Section 124 (1) of the *Local Government Act 1999* that states:

- (1) *A council must:*
 - a) *keep such accounting records as correctly and adequately record and explain the revenues, expenses, assets and liabilities of the council; and*
 - b) *keep its accounting records in such manner as will enable –*
 - (i) *the preparation and provision of statements that present fairly financial and other information; and*
 - (ii) *the financial statements of the council to be conveniently and properly audited.*

When reviewing the internal financial controls surrounding the General Ledger, councils should consider the following issues:

- Processing of accurate journals and effective review of such journals
- Performance of effective and regular Balance Sheet reconciliation process involving independent review
- Adequate data security measures including access controls and a formal disaster recovery plan.

Key Issues/Risks

In relation to the General Ledger, the major risks faced by councils may be summarised as follows:

- 1) General Ledger does not contain accurate financial information
- 2) Data contained within the General Ledger is permanently lost.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Within the General Ledger, it is imperative that the following tasks be segregated:

- Preparation of journals and Balance Sheet reconciliations
- Review and approval of journals and Balance Sheet reconciliations.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	General Ledger			Date:			
Risk No. 1:	General Ledger does not contain accurate financial information						
Description:	If processing errors (i.e., inaccurate journals) occur in the General Ledger, this may result in the General Ledger, as well as the financial statements and management reports being misstated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	All major updates and changes to General Ledger finance system are authorised, tested and documented.	Core					
2	Access to General Ledger maintenance is restricted to appropriately authorised personnel.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Reconciliation of all balance sheet accounts is completed in accordance with a schedule of review and/or procedure.	Core					
4	All balance sheet reconciliations are reviewed by a person other than the preparer at least annually.	Core					
5	Journal entry access is restricted to appropriately authorised personnel.	Core					
6	Financial data is backed up and stored offsite.	Core					
7	Amendments to the structure of the General Ledger framework and accounts are reviewed and approved by appropriately authorised personnel.	Core					
8	General Ledger policies and procedures are appropriately created, updated and communicated to relevant staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
9	All journals, including manual entries, identify date posted, narration, author, journal and posting reference.	Core					
10	There is a process in place to review actual vs budget and significant variances investigated.	Core					
11	Finance system does not allow posting of unbalanced journals or if it does regular reviews are conducted on the suspense account and discrepancies investigated and actioned.	Additional					
12	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	General Ledger			Date:			
Risk No. 2:	Data contained within the General Ledger is permanently lost						
Description:	If adequate back-up procedures are not employed by council, data within the General Ledger may be permanently lost resulting in significant operational inefficiencies.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Financial data is backed up and stored offsite.	Core					
2	All major updates and changes to the General Ledger finance system are authorised, tested and documented.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Access to General Ledger maintenance is restricted to appropriately authorised personnel.	Core					
4	General Ledger policies and/or procedures are appropriately created, updated and communicated to relevant staff.	Core					
5	Formal disaster recovery plan is in place and communicated to relevant staff.	Additional					
6	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

2.3. Statutory Reporting

Introduction

The fundamental purpose of Reporting is to provide timely and accurate financial and non-financial information to both the elected body and senior management within council and the external users of financial statements. Timely and accurate reporting provides the appropriate stakeholders with reliable information that can assist in the effective management and monitoring of the performance of council operations. Various sections of the Local Government Act deal specifically with the Statutory Reporting requirements for councils. For example:

Under Section 127 (1),

- (1) *'A council must prepare for the financial year:*
 - a) *financial statements and notes in accordance with standards prescribed by the regulations; and*
 - b) *other statements or documentation relating to the financial affairs of the council required by the regulations.'*

In particular the financial statements of a council, council subsidiary or regional subsidiary must be in accordance with the requirements set out in the Model Financial Statements

Under Section 131,

- (1) *'A council must, on or before 30 November in each year, prepare and adopt an annual report relating to the operations of the council for the financial year ending on the preceding 30 June.'*
- (1a) *'The annual report must include the amount of legal costs incurred by the council in the relevant financial year.'*

Councils should also refer to the relevant AASB standards as they provide further detail and guidance on the relevant reporting or accounting issue. The Statutory Reporting process must also include for consideration the following issues:

- Appointment and role of the Audit Committee (refer Section 126 of the Local Government Act)
- Appointment and role of the statutory auditor (refer Section 128 of the Local Government Act)
- Responsibilities of the CEO in relation to the auditor (refer Section 130 of the Local Government Act)
- Accuracy of the data produced by the financial and accounting system and used for reporting purposes.

It is also recognised that all councils have a number of specified Prudential Reporting requirements under Section 48 of the Local Government Act, when engaging in a commercial project:

- 1) Where the expected recurrent or capital expenditure of the project exceeds: either 20 per cent of the council's average annual operating expenses over the previous five financial years or
- 2) Where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed) or

- 3) Where the council considers it necessary or appropriate.

For an analysis of the risks and controls associated with management reporting, please refer to the 'Management Reporting' business process in Section 2.4 of this Framework.

Key Issues/Risks

In relation to Statutory Reporting, the major risks faced by councils may be summarised as follows:

- 1) council does not comply with statutory reporting requirements and deadlines
- 2) council's statutory reports provide inaccurate financial information.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Within the Statutory Reporting cycle, it is imperative that the following tasks be segregated:

- Preparation of statutory financial reports
- Review and approval of statutory financial reports.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Statutory Reporting			Date:			
Risk No. 1:	Council does not comply with statutory reporting requirements and deadlines.						
Description:	If council does not comply with statutory reporting requirements, this may result in council being liable to pay statutory breaching penalties.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Statutory financial reports prepared by appropriate personnel are reviewed by senior management and/or Audit Committee.	Core					
2	Council has a process in place to ensure statutory reporting deadlines are met.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Council has complied with all of its financial reporting requirements as per the <i>Local Government Act 1999</i> and relevant regulations	Core					
4	There is a process to ensure that appropriate personnel responsible for preparing statutory reports are aware of changes to reporting requirements.	Core					
5	Liaison with external auditors to ensure timely completion and lodgement of statutory documents.	Core					
6	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Statutory Reporting			Date:			
Risk No. 2:	Council's statutory reports provide inaccurate financial information.						
Description:	If inaccurate financial information is contained within statutory reports (i.e., annual statements), then council faces the risk of not fulfilling its statutory obligations. This may result in legal and financial penalties.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to review actual compared to budget and significant variances investigated.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Statutory financial reports prepared by appropriate personnel; reviewed by senior management and/or Audit Committee.	Core					
3	Reconciliation of all balance sheet accounts is completed in accordance with a schedule of review and/or procedure.	Core					
4	Financial policies and procedures, and related guidance are reviewed and updated as required.	Core					
5	All balance sheet reconciliations are reviewed by a person other than the preparer at least annually.	Core					
6	Liaison with external auditors to ensure completion and lodgement of statutory documents.	Core					
7	Liaison with legal and tax advisors as required to assist in timely completion and lodgement of statutory documents.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
8	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

2.4. Management Reporting

Introduction

The fundamental purpose of reporting is to provide timely and accurate financial and non-financial information to both the elected body and senior management within council and external users of financial statements. Timely and accurate reporting provides the appropriate stakeholders with reliable information that can assist in the effective management and monitoring of the performance of council operations.

Council's operations can be reported internally, largely through the preparation of monthly management reports comparing actuals to budgets. Management reports need to provide sufficient detail to enable the identification of significant variances and need to be prepared by suitably qualified and experienced staff. It is important to note that management reports should focus on comparing actuals to budgets, explaining significant variances to budget and report on significant operational matters. When reviewing the internal control environment surrounding the management reporting process, councils should consider the following issues:

- Regular timing of reviews
- Appropriate delegations of authority
- Adequately qualified and trained management
- Nature of the financial information being reviewed
- Timely investigation of variances and/or unusual trends identified from the review.

For an analysis of the risks and controls associated with statutory reporting, please refer to the 'Statutory Reporting' business process in Section 2.3 of this Framework.

Key Issues/Risks

In relation to Management Reporting, the major risks faced by councils may be summarised as follows:

- 1) KPIs are not consistent with Corporate Objectives and accounting policies adopted by council are not adhered to by council administration
- 2) Council's financial information is not reviewed in a timely manner to enable effective decision making
- 3) Council's management reports provide inaccurate financial information
- 4) Significant budget variances are either not investigated on a timely basis or not investigated at all.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Within the Management Reporting cycle, it is imperative that the following tasks be segregated:

- Preparation of management reports
- Review and approval of management reports.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Management Reporting			Date:			
Risk No. 1:	KPIs are not consistent with Corporate Objectives and accounting policies adopted by council are not adhered to by council administration.						
Description:	If KPIs are not linked to the Corporate Objectives, then senior management will be striving towards measures that ultimately will not lead to the achievement of the desired corporate objectives.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Council has adopted a set of key financial indicators and targets that are consistent with the corporate objectives	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Council has a suite of accounting policies and procedures that are regularly reviewed, and updates are communicated to appropriate personnel.	Core					
3	The long term financial plan is reviewed in accordance with the <i>Local Government Act 1999</i> and monitored in line with key financial targets.	Core					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Management Reporting			Date:			
Risk No. 2:	Council's financial information is not reviewed in a timely manner to enable effective decision making.						
Description:	If council does not review its financial performance effectively, informed decisions as to the performance of council cannot be made and plans for the future may not be achieved.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Council reviews and reports on its financial performance in accordance with relevant legislative requirements.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place to ensure relevant staff are clearly informed of their duties and responsibilities in relation to financial management reporting.	Additional					
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Management Reporting			Date:			
Risk No. 3:	Council's management reports provide inaccurate financial information.						
Description:	If management reports are inaccurate due to processing errors or unreliable data, the elected body and the senior management will not be able to monitor the performance of council effectively.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place for the review of financial management reporting for reasonableness and accuracy.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There are automated exception reports that identify variances to budget based on a predetermined threshold to be investigated.	Additional					
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Strategic Financial Planning			Prepared by:			
Business Process:	Management Reporting			Date:			
Risk No. 4:	Significant budget variances are either not investigated on a timely basis or not investigated at all.						
Description:	<p>Significant budget variances may indicate a major operational issue that requires immediate attention. If these variances are either not addressed by management on a timely basis or not at all, then this may have a major impact upon the operational efficiency of council.</p> <p>This risk assumes that councils already perform comparisons of actual performance against budget. It should be noted that if actual performance is not compared against budget, the senior management will not be notified of any variances/unusual trends that may indicate significant operational issues that require immediate attention. Also without budget comparisons, the senior management is unable to measure the performance of council.</p>						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Management and/or council review the financial management reports on a regular basis and investigate all significant variances to budget.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3. Assets

3.1. Cash Floats and Petty Cash

Introduction

Given the potential for misappropriation, the receipting, handling and recording of Cash Floats and Petty Cash is a high risk activity. Accordingly, councils must develop and implement ways in which this high risk can be minimised. When reviewing the internal control environment surrounding Cash Floats and Petty Cash, councils should consider the following issues:

- Designating the appropriate levels of cash floats and petty cash
- Storage of cash floats & petty cash in secured locations both within and outside regular office hours
- Designated personnel responsible for the managing and monitoring of cash floats & petty cash
- Regular and independent counts of cash floats & petty cash.

For an analysis of the risks and controls associated with banking, please refer to the 'Banking' business process in Section 3.2 of this Framework.

Key Issues/Risks

In relation to Cash Floats and Petty Cash, the major risk faced by councils may be summarised as follows:

- 1) Cash floats and petty cash are inadequately safeguarded
- 2) Cash floats and petty cash transactions are either invalid, inaccurately recorded or not recorded at all.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Given the high risk of misappropriation surrounding cash, it is imperative that councils focus strongly on ensuring that where possible, duties are segregated and that opportunities for staff collusion are minimised. A suggested way to minimise these risks is through the regular counts of cash floats and petty cash by personnel independent from the recording of these assets.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Cash Floats and Petty Cash			Date:			
Risk No. 1:	Cash Floats and Petty Cash are inadequately safeguarded.						
Description:	If access to Cash Floats and Petty Cash is not restricted by storing these assets in secure locations (i.e., safe), then these assets are more likely to be misappropriated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Cash floats and petty cash are stored in secured facilities (e.g., safes, registers) when not in use.	Core					
2	Access to the cash floats and petty cash is limited to authorised personnel.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	A register for cash floats and petty cash and custodians is maintained by authorised personnel to record all movements.	Core					
4	I.O.U.'s are prohibited.	Core					
5	Petty Cash amounts paid out should be under a predetermined amount and payments cannot be split over more than one voucher to come under the predetermined amount.	Core					
6	Cash floats and petty cash are reconciled and reviewed by a person other than the person responsible for the petty cash	Additional					
7	Spot cash float and petty cash counts conducted periodically by independent personnel.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
8	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Cash Floats and Petty Cash			Date:			
Risk No. 2:	Cash Floats and Petty Cash transactions are either invalid, inaccurately recorded or not recorded at all.						
Description:	Invalid transactions can result if disbursements or reimbursements are for fictitious expenses. Inaccurately recorded transactions can result from both unintentional and intentional processing errors. All disbursements and reimbursements must be recorded in the cash float and petty cash registers to avoid the cash balances in the management reports and financial statements from being misstated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	A register for cash floats and petty cash and custodians is maintained by authorised personnel to record all movements.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Petty Cash to be approved in line with policy or procedure having regard to amounts, substantiation criteria and authorisation.	Core					
3	Custodians of cash floats are informed of and undertake their responsibilities and obligations including reconciliations and accountability for cash movements.	Core					
4	Cash handling and petty cash policy and/or procedures are available to all staff.	Core					
5	Cash floats and petty cash are reconciled and reviewed by a person other than the preparer.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
6	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.2. Banking

Introduction

When reviewing the internal control environment surrounding Banking, councils should consider the following issues:

- Number of cheque-signatories
- Appropriate personnel to be designated cheque-signatories
- Number of bank accounts to be held by council
- Timely reconciliation of bank accounts
- EFT controls, passwords and access permissions
- Custody of blank cheques and cheque-signing machines.

For an analysis of the risks and controls associated with cash handling, please refer to the 'Cash Floats & Petty Cash' business process in Section 3.1 of this Framework.

Key Issues/Risks

In relation to Banking, the major risks faced by councils may be summarised as follows:

- 1) Banking transactions are either inaccurately recorded or not recorded at all
- 2) Fraud (i.e., misappropriation of funds).

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Given the high risk of misappropriation surrounding cash and banking, it is imperative that councils focus strongly on ensuring that where possible segregation of duties is achieved. For example, the following activities should be performed by separate personnel:

- Opening mail containing cheque payments
- Recording all cheque payments in the mail
- Receipting all cash payments from ratepayers/customers
- Recording all cash receipts
- Banking all cash receipts and cheques
- Bank reconciliations.

Also, the opportunity for the misappropriation of funds through collusion should be minimised by the regular independent review of bank reconciliations.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Banking			Date:			
Risk No. 1:	Banking transactions are either inaccurately recorded or not recorded at all.						
Description:	If cash is inaccurately recorded/receipted prior to being banked, this will result in banking either being inaccurately recorded or not recorded at all. As a result the cash balance will be misstated in both the management reports and the financial statements.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure all cash, blank cheques and/or cheque signing machine are adequately safeguarded.	Core					
2	Access to EFT Banking system is restricted to appropriately designated personnel.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Bank reconciliations are performed on a predetermined basis and are reviewed by an appropriate person. Any identified discrepancies are investigated.	Core					
4	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Banking			Date:			
Risk No. 2:	Fraud (i.e., misappropriation of funds)						
Description:	If cash is misappropriated, this will result in banking either being inaccurately recorded or not recorded at all. As a result the cash balance will be misstated in both the management reports and the financial statements.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure all cash, blank cheques and/or cheque-signing machine are adequately safeguarded.	Core					
2	Bank reconciliations are performed on a predetermined basis and are reviewed by an appropriate person. Any identified discrepancies are investigated.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Cash transfers between bank accounts and investment bodies are undertaken by appropriate staff.	Core					
4	There is a process in place to ensure all cash collected is adequately recorded and banked regularly.	Core					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.3. Investments

Introduction

All councils have the statutory power to invest money under its control under Section 139 (1) of the Local Government Act. With this statutory power to invest, comes a whole range of associated risks, some of which are of a financial nature.

In order to minimise council's exposure to financial loss, it is imperative that all councils implement an appropriate level of internal financial controls. Council's power to invest money is limited by the statutory requirements of Section 139 (2) of the Local Government Act which states that a council must, in exercising its power of investment:

- a) *exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons; and*
- b) *avoid investments that are speculative or hazardous in nature.*

Furthermore, under Section 139 (3), "a council must, so far as may be appropriate in the circumstances, have regard to:

- a) *the purposes of the investment*
- b) *the desirability of diversifying council investments*
- c) *the nature of and risk associated with existing council investments*
- d) *the desirability of maintaining the real value of the capital and income of the investment*
- e) *the risk of capital or income loss or depreciation*
- f) *the potential for capital appreciation*
- g) *the likely income return and the timing of income return*
- h) *the length of the term of a proposed investment*
- i) *the period for which the investment is likely to be required*
- j) *the liquidity and marketability of a proposed investment during, and on the determination of, the term of the investment*
- k) *the aggregate value of the assets of the council*
- l) *the likelihood of inflation affecting the value of a proposed investment*
- m) *the costs of making a proposed investment*
- n) *the results of any review of existing council investments.*

Under Section 139 (5), "a council may obtain and consider independent and impartial advice about the investment of funds or the management of its investments from a person whom the council reasonably believes to be competent to give the advice".

The council also has a statutory obligation under Section 140, to review the performance (individually and as a whole) of its investments, at least once in each year.

Key Issues/Risks

In relation to Investments, the major risks faced by councils may be summarised as follows:

- 1) Council makes poor investment decisions
- 2) Investment transactions are either not recorded or are recorded inaccurately
- 3) Investment income is inaccurately calculated or not recorded in the appropriate period
- 4) Conflict of interest impacts negatively upon the investment decision.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. The following segregation of duties should exist within the investment cycle. Such segregation of duties is intended to prevent one person from having both:

- Access to assets and
- Responsibility for maintaining the accountability for such assets.

For instance, in the investment cycle, different individuals are typically responsible for:

- Recording of investment transactions
- Approving new investments
- Following up on reconciliation or confirmation of investments to statements from third parties
- Review and analysis of recorded investments transactions by means of summary reports of activities (e.g., describing liquidity, interest rate gap, dealing positions, exposure to counterparties)
- Authorised signature of payments with respect to investment transactions.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Investments			Date:			
Risk No. 1:	Council makes poor investment decisions.						
Description:	If council decides to invest in high-risk or controversial projects, this can result in negative publicity and the potential loss of the original investment.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Council has a clear and comprehensive investment policy to assist when making any decisions to invest funds.	Core					
2	Delegations are in place for approving and making investment decisions.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Council reviews investment performance at least annually in accordance with relevant legislation.	Core					
4	All investments are to be held in the name of the council or associated entities in accordance with the source of funds.	Core					
5	Conflicts of interest are to be disclosed as part of investment decision process.	Core					
6	There is a process in place to monitor cash and anticipated future cash flows. Surplus funds invested in accordance with council policy.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
7	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Investments			Date:			
Risk No. 2:	Investment transactions are either not recorded or are recorded inaccurately.						
Description:	Unrecorded investment transactions may result in financial loss if funds are disbursed, but title to the investment is never received, or if investments mature or are sold, but the proceeds are neither received nor reinvested. If investment transactions are recorded inaccurately, investments may be misstated in the balance sheet.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Cash transfers between bank accounts and investment bodies are undertaken by appropriate staff.	Core					
2	Journals are processed regularly for all investments and a reconciliation process is in place to verify accuracy of transactions.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Records of investments are kept detailing amounts and maturity dates.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Investments			Date:			
Risk No. 3:	Investment income is inaccurately calculated or not recorded in the appropriate period.						
Description:	Inaccurately recorded investment income, unrecorded investment income, or investment income recorded in the incorrect period may result in financial misstatement. Such errors often result from inaccurate data entry of interest rates and/or inaccurate calculation of interest or dividend income.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Actual investment income compared to budget on a regular basis; variances are investigated.	Core					
2	Journals are processed regularly for all investments and a reconciliation process is in place to verify accuracy of transactions.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Investments			Date:			
Risk No. 4:	Conflict of interest impacts negatively upon the investment decision.						
Description:	If a decision to invest funds is influenced by a personal relationship with a third-party, an inappropriate investment decision may result. Negative publicity and a potential loss of investment income and devaluation in the investment may result from such an investment decision.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Council has a clear and comprehensive investment policy to assist when making any decisions to invest funds.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Staff involved in the investment decision making process understands their obligations under the Investment Policy.	Core					
3	There is a process in place to ensure compliance with Conflict of Interests and Code of Conduct.	Core					
4	All investments are to be held in the name of the council or associated entities in accordance with the source of funds.	Core					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.4. Debtors

Introduction

Councils have a statutory right to raise revenue through a form of taxation – rates. Rates represent the major source of revenue for councils and consequently the risks and controls surrounding rates and the associated debtors constitute a significant component of the internal control environment within council.

Along with this statutory right to raise rate revenue, Section 144 of the Local Government Act provides councils with the statutory right to recover fees, charges, expenses or other amounts from a person, by action in a court of competent jurisdiction. Councils also need to ensure that rate-related and other debtors are recovered on a timely basis. Should it be required, there are statutory guidelines as to the procedure for writing-off any debts.

Specifically under Section 143 (1) of the Local Government Act, a council may write-off any debts owed to the council under the following circumstances:

- a) *if the council has no reasonable prospect of recovering the debts or*
- b) *if the costs of recovery are likely to equal or exceed the amount to be recovered.*

Furthermore, under Section 143 (2), a council must not write off a debt under Section 143 (1) unless the chief executive officer has certified:

- a) *that reasonable attempts have been made to recover the debt or*
- b) *that the costs of recovery are likely to equal or exceed the amount to be recovered.*

Finally, under Section 143 (3), if a council delegates the power to write off debts under this section, the council must set an amount above which the delegation will not apply.

Please refer to the 'Rates / Rebates' business process in Section 5.1 of this Framework for an analysis of the risks and controls that specifically relate to the revenue processes in regard to rates.

Key Issues/Risks

In relation to Debtors, the major risks faced by councils may be summarised as follows:

- 1) Debtors are either inaccurately recorded or not recorded at all
- 2) Credit notes to debtors are either inaccurately recorded or not recorded at all
- 3) An appropriate provision for doubtful debts is not recorded
- 4) Debtors are either not collected on a timely basis or not collected at all
- 5) The Debtors master file data does not remain pertinent.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets and
- Responsibility for maintaining the accountability for such assets.

For instance, in the revenue system, different individuals are typically responsible for:

- Recording revenue
- Approving revenue
- Invoicing the ratepayer
- Maintaining accounts receivable records and/or authorising adjustments to debtors
- Processing cash receipts
- Performing independent debtors’ confirmation and following up on discrepancies
- Making changes to debtor master files.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet							
Risk Category:		Assets			Prepared by:		
Business Process:		Debtors			Date:		
Risk No. 1:		Debtors are either inaccurately recorded or not recorded at all.					
Description:		Errors in invoices can lead to a misstatement of debtors and revenue, uncollectible accounts, and customer dissatisfaction. If invoices are issued but not recorded, revenue and accounts receivable in the financial statements may be understated. Furthermore, the related cash receipts may also not be recorded and may be misappropriated. Alternatively, the council is unlikely to notice or follow up on delinquent payments if the invoice has not been recorded.					
Inherent Risk Assessment							
Likelihood		Consequence		Rating		Accept	
Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Debtor's reconciliation is performed on a regular basis to the General Ledger and reviewed by an appropriate person.	Core					
2	The organisation maintains a Debt Collection Policy and/or procedure.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Statements are provided regularly to debtors.	Additional					
4	Debtors and revenue are compared to budget regularly and investigates significant variances.	Additional					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Debtors			Date:			
Risk No. 2:	Credit notes to debtors are either inaccurately recorded or not recorded at all.						
Description:	Inaccurately recorded credit notes can lead to a misstatement of debtors and revenue, and may result in uncollectible accounts and/or customer dissatisfaction. Credit notes issued but not recorded result in misstated accounts receivable and revenue and may result in customer dissatisfaction. They may have a negative impact on cash flows because customers may refuse to pay notices/invoices for which they are awaiting credits even if the credits are only for a small portion of the notices/invoices.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to review and approve all credit notes for sundry debtors in accordance with delegations of authority.	Core					
2	All invoices raised and credit notes applied have an audit trail.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Invoice and credit note input data is balanced; out-of-balance batches are corrected promptly.	Additional					
4	Statements are provided regularly to debtors.	Additional					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Debtors			Date:			
Risk No. 3:	An appropriate provision for doubtful debts is not recorded.						
Description:	If the provision for doubtful debts is not correctly stated, debtors will be misstated in both the management reports and the financial statements.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Relevant staff reviews sundry debtors ageing profile on a regular basis and investigates any outstanding items, and considers provision for doubtful debts at year end.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Bad debt write-offs and movements in the provision for doubtful debts for Sundry Debtors are processed in accordance with delegations of authority and Local Government Act.	Core					
3	Records of bad debt write-offs should be maintained.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Debtors			Date:			
Risk No. 4:	Debtors are either not collected on a timely basis or not collected at all.						
Description:	If aged debtors are not identified and managed effectively, this may result in debtors not being collected on a timely basis or not collected at all. This will place greater demands on council's cash flow.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Debtor's reconciliation is performed on a regular basis to the General Ledger and reviewed by appropriate staff, with consideration of segregation of duties.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Relevant staff reviews debtors ageing profile on a regular basis and investigates any outstanding items, and considers provisions for doubtful debts.	Core					
3	Statements are provided regularly to debtors.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Debtors			Date:			
Risk No. 5:	The Debtors master file data does not remain pertinent.						
Description:	"Pertinent" means that the debtor's master file reflects current conditions. In this context, the pertinence attribute of quality relates both to master file records and to individual data fields within those records. For example, pertinent debtors master file records include records for current debtors and exclude records for former debtors.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by relevant staff for accuracy and on-going pertinence.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place to ensure changes to the debtors master file are compared to source documents to ensure they are inputted accurately	Core					
3	Debtors system provides audit trail to record changes made to master file.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.5. Inventory

Introduction

There are no specific provisions relating to inventory in the Local Government Act. It is recognised that for many councils, inventory levels are normally quite low. However as a minimum, council when reviewing the internal control environment surrounding inventory should consider the following issues:

- Inventory policy: to determine which items are to be treated as inventory and administered
- Physical storage: to ensure that all inventory items are adequately secured
- Issues and returns: to ensure that all inventory issues and returns are adequately recorded
- Stock takes: to ensure that inventory levels are accurately recorded and reported on a timely basis
- Yearend considerations: to ensure that consistent valuation policies are adopted and applied.

Key Issues/Risks

In relation to Inventory, the major risks faced by councils may be summarised as follows:

- 1) Inventory received is either recorded inaccurately or not recorded at all
- 2) Inventory is inadequately safeguarded
- 3) Inventory held by council becomes obsolete.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

For councils with significant inventory levels, the following segregation of duties should exist within the inventory management cycle:

- Where possible, personnel responsible for purchasing, accounts payable, receiving, inventory, inventory counts, production scheduling, and shipping have responsibility for only one such function and have no system access to functions other than their assigned function
- Individuals who are responsible for transaction processing should ordinarily have no responsibility for master file maintenance or updating the chart of accounts, except through the authorised application menu options
- Personnel responsible for the custody of inventory have 'read-only' access to inventory records, and personnel who are responsible for inventory transaction processing have neither responsibility for inventory management master file maintenance nor update access to the inventory master file.

Most systems of internal control rely on assigning certain responsibilities to different individuals, or "segregating" incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets and
- Responsibility for maintaining the accountability for such assets.

Such segregation of duties is especially important in relation to separating the custody or handling of inventory from access to inventory records and master files. In addition, physical counts of inventory should be performed by someone independent of custody of inventory and with no access to inventory records. Discrepancies noted in the comparison of the counts to inventory records should also be followed up by an individual who is independent of the custody and recording of inventory.

It is recognised that a number of councils do not have significant inventory levels. For these councils, a cost-benefit analysis may indicate that such levels of segregation of duties are not applicable and/or cost effective.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Inventory			Date:			
Risk No. 1:	Inventory received is either recorded inaccurately or not recorded at all.						
Description:	Incomplete and/or inaccurate recording of inventory receipts may result in a misstatement of inventory. Failure to record inventory received may also lead to supplier disputes and/or inventory obsolescence.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Physical inventory is counted periodically with review by an appropriate person and is reconciled against the general ledger, material variances investigated.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	All inventory write-offs and provisions for obsolescence to be approved by appropriate staff in accordance with Delegations of Authority.	Core					
3	There is a process in place to ensure all inventory adjustments and stock transfers are valid and accurate	Core					
4	Procurement of inventory is approved in accordance with the Delegations of Authority and relevant Procurement policy and/or procedure.	Core					
5	There is a process in place to ensure that invoices are paid after goods have been received.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
6	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Inventory			Date:			
Risk No. 2:	Inventory is inadequately safeguarded.						
Description:	If inventory is not securely stored, it may be subject to damage or theft.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Access to inventory is restricted to authorised personnel, where appropriate.	Core					
2	Goods are delivered to relevant inventory locations and checked for completeness and quality, and defective goods returned on a timely basis.	Additional					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3 Inventory is appropriately insured.	Additional					
4 Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Inventory			Date:			
Risk No. 3:	Inventory held by council becomes obsolete.						
Description:	Council may have inventory that has expired or is technically obsolete, and therefore is not usable. In addition to the loss in asset value the cost of disposing of obsolete inventory can be high. Further, certain types of inventory have a limited life span. Adequate inventory management, adequate storage facilities and ongoing monitoring are central to maintaining the usability of inventory and maximising its life span.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Usability of inventory and level of inventory is assessed at least annually.	Core					
2	Assessment of appropriate inventory consumption having regard to risk is undertaken.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.6. Prepayments

Introduction

There are no specific sections of the Local Government Act that deal specifically with prepayments. However as a minimum, council when reviewing the internal control environment surrounding prepayments should address the issue of when payments are to be classified as prepayments, and the period over which they should be amortised.

It is important that all prepayments are identified and recorded on a timely basis to ensure that expenses are recognised in the appropriate period and that the financial statements are not misstated. The recognition, treatment and recording of prepayments is normally a process associated with year-end reporting for most councils.

Key Issues/Risks

In relation to Prepayments, the major risk faced by councils may be summarised as follows:

- 1) Prepayments are either inaccurately recorded or not recorded at all.

This risk has been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Prepayments			Date:			
Risk No. 1:	Prepayments are either inaccurately recorded or not recorded at all.						
Description:	<p>If prepayments are not recorded or inaccurately recorded, both the management reports and the financial statements will be misstated. Examples of when this may occur include:</p> <ul style="list-style-type: none"> • Deferring all of an expense when only a portion should be deferred or • Not deferring any part of an expense when at least some portion of the expense should be deferred. 						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Prepayment reconciliation performed in accordance with the schedule of review or procedure to the General Ledger and reviewed by relevant staff, with consideration of segregation of duties.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Procedures provide guidance as to the recognition, treatment and recording of prepayments.	Additional					
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.7. Fixed Assets

Introduction

In this Framework, the definition of 'Fixed Assets' is stated to include infrastructure and Property, Plant and Equipment (PPE) assets. The risks and controls documented in the following Control Assessment Worksheets address both the specific risks associated with infrastructure assets and those more general risks associated with fixed assets as a whole. The key risks associated with infrastructure have been identified as being appropriate identification and valuation. When reviewing the internal control environment surrounding fixed assets, council should consider the following issues:

- Additions and disposals
- Classification and capitalisation policies
- Depreciation policies
- Recording / registers
- Year-end considerations
- Security arrangements, insurance coverage and maintenance plans
- Valuations.

The financial impact of fixed assets on the operations of council and the annual financial statements is significant as evidenced by the following relationships:

- Additions and disposals
- Capital additions may have significant demands on cash flows and may represent a significant capital investment
- Choice of depreciation policy affects the depreciation charged to the Statement of Comprehensive Income
- Disposals of fixed assets may result in profit and loss on sale.

Further guidance in relation to the appropriate recognition, depreciation, impairment and valuation of fixed assets is provided by the following:

- AASB 13: Fair Value Measurement
- AASB 116: Property, Plant and Equipment
- AASB 117: Leases
- AASB 136: Impairment of Assets
- AASB 140: Investment Property
- The Australian Infrastructure Financial Management Guidelines produced by IPWEA; and
- CPA Guide to Valuation and Depreciation Under the International Accounting Standards for the Public Sector

Key Issues/Risks

In relation to fixed assets, the major risks faced by councils may be summarised as follows:

- Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. Fixed Asset Register (FAR) does not remain pertinent.
- Fixed assets are inadequately safeguarded
- Fixed Assets are not valued correctly initially or on subsequent revaluation
- Depreciation charges are either invalid, not recorded at all or are inaccurately recorded which includes inappropriate useful lives and residuals.
- Fixed Asset maintenance and/or renewals are inadequately planned.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets; and
- Responsibility for maintaining the accountability for such assets.

The following types of responsibilities should ordinarily be segregated:

- Transaction initiation (acquisitions or disposals)
- Transaction authorisation
- Transaction recording
- Custody of assets
- Reconciliation of physical fixed assets and liabilities to records.

Therefore, personnel responsible for fixed asset acquisition, disposal, recording, and maintenance should have responsibility for only one such function and have no system access to functions other than their assigned function. In addition, personnel who are responsible for fixed asset transaction processing should have neither responsibility for fixed asset masterfile maintenance nor update access to the fixed asset master file.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Fixed Assets			Date:			
Risk No. 1:	Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. Fixed Asset Register (FAR) does not remain pertinent.						
Description:	Recorded fixed asset acquisitions that do not represent fixed assets acquired by council may result in misstatement in the management report and financial statements. Inaccuracies in the input and/or processing of asset acquisition details or amounts may lead to the asset being incorrectly reflected in the general ledger. Asset acquisitions that are not recorded may understate the value of fixed assets and depreciation, and may lead to assets being lost or misappropriated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place for the verification of fixed assets which is reconciled to the FAR.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Recorded changes to the FAR and/or masterfile are approved by appropriate staff compared to authorised source documents and General Ledger to ensure accurate input.	Core					
3	All fixed asset acquisitions and disposals are approved in accordance with Delegation of Authority and relevant Procurement and Fixed Asset Policies.	Core					
4	Maintenance of the fixed asset register is limited to appropriate staff with consideration to segregation of duties.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
5	Council has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence.	Core					
6	Reconciliation of fixed assets to the General Ledger is performed in accordance with schedule of review or procedure.	Core					
7	Asset register calculations are reviewed for accuracy.	Core					
8	Fixed assets are recorded on acquisition, creation or when provided free of charge to facilitate accurate identification of assets and recording of details with regards to the Asset Accounting Policy.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
9	Asset maintenance is planned and monitored with relevant staff in accordance with the Asset Management Plans.	Additional					
10	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Fixed Assets			Date:			
Risk No. 2:	Fixed assets are inadequately safeguarded.						
Description:	If fixed assets are not securely stored, they may be subject to damage or theft.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Where appropriate, fixed assets are secured and access is restricted to appropriate staff and authorised users.	Core					
2	Where appropriate, fixed assets are insured.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Where appropriate, identification details are recorded for portable and attractive assets such as IT and fleet assets, on acquisition to facilitate accurate identification.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Fixed Assets			Date:			
Risk No. 3:	Fixed Assets are not valued correctly initially or on subsequent revaluation.						
Description:	If fixed assets are not valued correctly, the management reports and financial statements will be misstated. For example, incorrect carrying values may result from the use of inappropriate depreciation rates.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Relevant staff review useful lives, residuals, valuations, depreciation methodology and test for impairment as required by Accounting Standards and legislation to ensure that methods used are still appropriate and significant changes are incorporated into Asset Management Plans.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Profit or loss on disposal calculations can be substantiated and verified with supporting documentation.	Core					
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Fixed Assets			Date:			
Risk No. 4:	Depreciation charges are either invalid, not recorded at all or are inaccurately recorded which includes inappropriate useful lives and residuals.						
Description:	<p>Invalid depreciation charges can result if depreciation charges are recorded with respect to fictitious assets or assets that have been disposed of. Invalid depreciation charges may also result if depreciation rates and methods of calculation are not properly applied.</p> <p>Depreciation charges should be calculated in accordance with the accounting policy, including the useful life, depreciation method, and calculation formulas.</p>						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Depreciation charges are calculated in accordance with the asset accounting policy and compliant with relevant accounting standards, including the useful life, depreciation method and residual values.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Fixed Assets			Date:			
Risk No. 5:	Fixed Asset maintenance and/or renewals are inadequately planned.						
Description:	If council does not conduct effective financial planning for the long-term use of their Fixed Assets, this will result in council not having sufficient funds to reinvest in fixed assets when required.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Asset Management Plans are prepared and renewal expenditure and programmed maintenance required is reviewed periodically to reflect changing priorities, additional asset data and other relevant factors.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Asset Management Plans for all major asset classes are adopted and reviewed by council as required by the <i>Local Government Act 1999</i> .	Core					
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.8. Project Costing

Introduction

Councils invest heavily in significant capital projects. Given this level of investment, it is imperative that expenditure on capital projects is reported accurately to the elected body and senior management. Accurate project costing is largely based on the use of a costing system that apportions costs to functions, activities, goods or services based on a reliable and consistent basis. The Local Government (Financial Management) Regulations 2011 require councils to prepare externally reported financial information on a Full Cost Attribution basis.

Full Cost Attribution is defined in the Regulations as:

“a system under which all costs, including indirect and overhead costs, are allocated to a function, activity, good or service on a reliable and consistent basis”.

Full Cost Attribution represents one methodology used to assign costs to projects and contrasts with the more traditional method, referred to as Direct Costing. For a detailed analysis of the issues surrounding costing systems generally and full cost attribution specifically, please refer to ‘A Guideline to Implementing Full Cost Attribution’, published by the Local Government Association of South Australia.

Key Issues/Risks

In relation to Project Costing, the major risks faced by councils may be summarised as follows:

- 1) Projects are either inaccurately recorded or not recorded at all
- 2) Appropriate approvals are not received for the establishment and changes in project scope or costs.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Project Costing			Date:			
Risk No. 1:	Projects are either inaccurately recorded or not recorded at all.						
Description:	<p>If an inappropriate costing method is used to record Project Costs or if there are finance system processing errors, this will result in Projects being inaccurately recorded, leading to misstatements in both the management reports and the financial statements.</p> <p>If the costs associated with approved Projects are not recorded due to oversights by personnel, this will result in Project Costs being understated and misstatements in both the management reports and the financial statements.</p>						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Actual project costs are regularly compared to budgets; significant variances are investigated by relevant staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	The project costing methodology is reviewed to ensure appropriate costs are recorded.	Additional					
3	Where there is a separate system to manage projects, relevant financial information is reconciled to the general ledger.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Project Costing			Date:			
Risk No. 2:	Appropriate approvals are not received for the establishment and changes in project scope or costs.						
Description:	If over-expenditures are not detected or project scopes are changed without approval, this will result in Project objectives not being achieved and may restrict council's ability to commit to funding future Projects.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Actual project costs are regularly compared to budgets; significant variances are investigated by appropriate staff.	Core					

	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Processes are in place for establishing and changing project scope and budgets with approvals in accordance with Delegations of Authority.	Core					
3	Exception report generated detailing all variances for project costs over a fixed threshold (i.e., percentage or dollar amount). Exception report reviewed by appropriate staff and all significant variances are investigated.	Additional					
4	There is an on-going review of current projects having regard to project scope and delivery within budget and with variations communicated and endorsed within relevant Delegations of Authority.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
5	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

3.9. Loans/Grants to Clubs/Community Groups

Introduction

As a minimum when reviewing the internal control environment surrounding Loans / Grants to Clubs / Community Groups, councils should consider the following issues:

- Appropriate approval and authorisation of the loan in accordance with the Delegations of Authority
- The negative publicity that council may receive from lending funds in these circumstances
- Conflicts of interest issues when deciding on the recipient of the funds
- Adequate recovery and collection procedures
- Monitoring those funds have been used for the purpose intended.

For an analysis of further risks and controls in relation to debtors generally, please refer to the 'Debtors' business process in Section 3.4 of this Framework.

Key Issues/Risks

In relation to Loans / Grants to Clubs / Community Groups, the major financial risks faced by councils may be summarised as follows:

- 1) Council issues Loans / Grants without appropriate approvals
- 2) Loans/Grants to Clubs/Community Groups are inaccurately recorded or not recorded at all
- 3) Clubs/Community Groups not able to repay Loans/Grants to council.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

The following activities should be separated in relation to Loans / Grants to Clubs / Community Groups:

- Approval of loan / grant
- Recording of the loan / grant
- Receipting loan / grant repayments
- Recording loan / grant repayments
- Approving write-off of loans / grants.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Loans / Grants to Clubs / Community Groups			Date:			
Risk No. 1:	Council issues Loans/Grants without appropriate approvals.						
Description:	If councils do not have a robust policy for the issuing of funds to organisations, this may result in funds being distributed to inappropriate Clubs/Community Groups. Such groups may not then be in a position to repay the loans/grants to council, resulting in both increased demands on cash flow for council along with negative publicity. This will result in an overstatement in the loan balance and a misstatement in the management reports and financial statements.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Council has a policy for issuing funds to Clubs/Community Groups. The Policy includes criteria for approval of funds with reference to the Delegations of Authority and Conflicts of Interest.	Core					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2 Appropriate staff monitor compliance of the funding arrangements.	Core					
3 Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Loans / Grants to Clubs / Community Groups			Date:			
Risk No. 2:	Loans/ Grants to Clubs / Community Groups are inaccurately recorded or not recorded at all.						
Description:	Loans/Grants to clubs/community groups may be inaccurately recorded in terms of either the amount of the loans or the details of the actual recipient of the funds. Unintentional or intentional errors can result in the loans not being recorded at all and the management reports and financial statements being misstated.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Loan receivable reconciliations are prepared and reviewed by appropriate staff with follow up of all outstanding receipts.	Core					
2	All loans/grants to Clubs/Community Groups are approved in accordance with the policy.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	There is a process in place to ensure all grants issued are spent in accordance with the funding agreement.	Core					
4	A loan schedule is provided to the loan recipient.	Core					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Assets			Prepared by:			
Business Process:	Loans / Grants to Clubs / Community Groups			Date:			
Risk No. 3:	Clubs/Community Groups not able to repay Loans/Grants to council.						
Description:	Councils must monitor the recovery of all Loans/Grants to Clubs/Community Groups on a regular basis to ensure that the amount recorded is the amount that they will receive in full. When a Club/Community Group is not repaying the loan in accordance with the original repayment schedule, the carrying value of the loan must be analysed by council with a view to assessing whether the full amount is recoverable. If a decision is made that the full amount is not recoverable, this will result in the carrying value of the loan being misstated and negative publicity for council.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Bad-debt write-offs for loans receivable are approved in line with relevant delegations.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Loan receivable reconciliations are prepared and reviewed by appropriate staff with follow up of all outstanding receipts.	Core					
3	Council has a policy for issuing funds to Clubs/Community Groups. The Policy includes criteria for approval of funds with reference to the Delegations of Authority and conflicts of interest.	Core					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

4. Liabilities

4.1. Accounts Payable

Introduction

There are no sections of the Local Government Act that deal specifically with accounts payable. However when reviewing the internal control environment surrounding accounts payable, council should consider the following issues:

- Receipt of approved goods and services
- Processing and recording of supplier invoices
- Custody of blank cheques and cheque-signing machines and access to electronic payment facilities
- Maintenance of the supplier master file.

For the purposes of this Framework, the accounts payable function has been defined as the process of recording the supplier invoice as a liability and its subsequent disbursement. Accordingly, the accounts payable function is separate from the preliminary activity of purchasing.

For the risks and controls associated with purchasing, please refer to the 'Purchasing & Procurement' business process in Section 6.1 of this Framework.

Key Issues/Risks

In relation to accounts payable, the major risks faced by councils may be summarised as follows:

- 1) Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all
- 2) Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all
- 3) Disbursements are not authorised properly
- 4) Accounts are not paid on a timely basis
- 5) Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

The following segregation of duties should exist within the disbursement cycle:

- Signed cheques, which have been compared to appropriate supporting documentation by the signatory, are delivered to someone independent of both the preparer and the initiator of the cheque for prompt mailing,

- Cheques should not be returned to the preparer or initiator of the cheque subsequent to being signed and should be timely mailed to ensure that opportunity for misappropriation is minimised,
- The return address on the envelopes that are used to mail cheques should be to a person(s) who does not prepare cheques or approve payment requests for payment
- Cheques once signed should also be timely mailed and processed to accounts payable to ensure that the cash and liability balances are fairly represented in the accounting records. This is especially important at period ends.

In addition the following tasks should be segregated in relation to the accounts payable function:

- Approval of supplier invoice
- Recording of liability (supplier invoice)
- Approval of payment (i.e., signing of cheque or approving EFT payment).

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Accounts Payable			Date:			
Risk No. 1:	Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all.						
Description:	If invoices are not entered accurately (i.e., amounts posted to incorrect creditor), accounts payable will be misstated, as will the relevant expense, inventory, or asset accounts. Also, erroneous payments may be made to vendors. If amounts posted to accounts payable do not represent goods or services received (due to invalid delivery address on purchase order), unauthorised payments might be made and the organisation might incur a financial loss. If accounts payable amounts are not recorded at all, accounts payable will be understated, as will the related inventory, expense, or asset accounts. Also, supplier payments will not be made, which may damage supplier relationships.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Payments are verified to appropriate supporting documentation and are in line with Delegations of Authority.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Payments are endorsed by relevant staff separate to the preparer, who ensures that they are paid to the correct payee.	Core					
3	Predetermined variances between Purchase Orders and Invoices are assessed and payment released only after verification by the officer with delegation to do so.	Additional					
4	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Additional					
5	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Accounts Payable			Date:			
Risk No. 2:	Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all.						
Description:	If credit notes and other adjustments are not recorded accurately, accounts payable will be misstated, as will the related expense, inventory, or asset accounts. If adjustments are not recorded at all, accounts payable, related assets, and expenses will be misstated. For example, if goods returned are not reflected by debits in accounts payable, accounts payable will be overstated, as will the underlying expense, inventory, or asset accounts.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Separation of Accounts Payable and Procurement duties.	Core					
2	Goods returned notes are matched to credit notes; differences are investigated promptly.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Accounts Payable			Date:			
Risk No. 3:	Disbursements are not authorised properly.						
Description:	Unauthorised disbursements could result in council making payments to suppliers for goods and services not actually received by the organisation or council may expend its funds on items of a private or personal nature when reimbursing employee expense claims.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	All invoices and payment requests are approved in accordance with relevant policies and/or Delegations of Authority.	Core					
2	Blank cheques to be held securely and access restricted to relevant staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Employee expenses claims must be approved by authorised staff and independently verified and include relevant substantiation.	Core					
4	Records must be maintained of all payments with supporting documentation.	Core					
5	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Accounts Payable			Date:			
Risk No. 4:	Accounts are not paid on a timely basis.						
Description:	If supplier invoices are not paid before their due date, then council may miss out on any available discounts (i.e., early payment) or have supply restricted. If supplier invoices are paid well before their due date (and prior to any early payment discount) greater demands will be placed on council's cashflow.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Relevant staff to review aged payables listing on a predetermined basis and investigate where appropriate.	Core					
2	There is a system generated report detailing supplier invoices due for payment at any one time.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable sub ledger regularly and differences are investigated.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category –	Liabilities	Prepared by:					
Business Process –	Accounts Payable	Date:					
Risk No. 5 –	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.						
Description –	To be considered “pertinent,” the master file must reflect current conditions. In this context, pertinence relates both to master file records and to individual data fields within those records. For example, if supplier data is not up-to-date, payments could be made to the wrong bank account. council needs to ensure that adequate controls are in place to ensure that no unauthorised changes to the supplier master file are made to ensure that payments are not to be made for non-council purposes.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Access to the supplier masterfile is restricted to authorised staff	Core					
2	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Separation of accounts payable and procurement duties.	Core					
4	There is a process in place to ensure the supplier master file is periodically reviewed for ongoing pertinence.	Additional					
5	Requested changes or additions to supplier masterfile are verified independently of source documentation.	Additional					
6	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

4.2. Accrued Expenses

Introduction

There are no specific sections of the Local Government Act that deal specifically with accrued expenses. However as a minimum, council when reviewing the internal control environment surrounding accrued expenses should address the issue of when accrued expenses should be recognised as a liability. It is important that all Accrued Expenses are identified and recorded on a timely basis to ensure that expenses are recognised in the appropriate period and that the financial statements are not misstated.

The recognition, treatment and recording of accrued expenses is normally a process associated with year-end reporting for most councils.

Key Issues/Risks

In relation to Accrued Expenses, the major risk faced by councils may be summarised as follows:

- 1) Accrued Expenses are either inaccurately recorded or not recorded at all.

This risk has been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to “Segregation of Duties” in the ‘Accounts Payable’ business process in Section 4.1 for an analysis of the segregation of duties issues that generally relate to liabilities.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Accrued Expenses			Date:			
Risk No. 1:	Accrued Expenses are either inaccurately recorded or not recorded at all.						
Description:	If accrued expenses are either inaccurately recorded (i.e., inaccurate estimation of accrual) or unrecorded (i.e., no invoice received and normal review of expenses did not identify need to accrue for expenses), the management reports and financial statements will be misstated.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Accrued expenses reconciliations are completed in accordance with a schedule of review and/or procedure.	Core					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2 Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

4.3. Borrowings

Introduction

All councils have the statutory power to raise funds through the borrowing of money or by obtaining other forms of financial accommodation, under Section 133 of the Local Government Act. Council's power to borrow money and obtain other forms of financial accommodation is however limited by the statutory requirements of:

s123(7a) *'A budget of a council may authorise the entry into borrowings and other forms of financial accommodation for a financial year of up to an amount specified in the budget'.*

s134 *'A council must not enter into a financial arrangement unless or until:*

- a) *the council has obtained and considered independent and impartial advice about the proposed financial arrangements and the appropriate risk-management policies, controls and systems that should be in place from a person whom the council reasonably believes to be competent to give the advice*
- b) *the council has adopted risk-management policies, controls and systems by a resolution passed by at least a two-thirds majority of the members of the council'.*

With this statutory power to borrow, comes a whole range of associated risks, some of which are of a financial nature. In order to minimise council's exposure to financial loss, it is imperative that all councils implement a comprehensive suite of internal financial controls.

Key Issues/Risks

In relation to Borrowings, the major risks faced by councils may be summarised as follows:

- 1) Borrowings are either not recorded or are recorded inaccurately
- 2) Loans are taken out without appropriate approval
- 3) Loans are not repaid in accordance with the agreed terms
- 4) Loan repayments are not recorded at all or are recorded inaccurately
- 5) Lack of working capital to meet council's financial commitments

It should be understood that the accumulated effect of these risks is far wider than purely financial consequences. For example, the financial loss to council that could result from inappropriate borrowings result may lead to widespread negative perceptions of council throughout the community.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or "segregating" incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets
- Responsibility for maintaining the accountability for such assets.

For instance, in the accounting system, different individuals are typically responsible for:

- Recording of borrowing transactions
- Approving new borrowings
- Following up on reconciliation or confirmation of borrowing to statements from third parties
- Review and analysis of recorded borrowing transactions by means of summary reports of activities (e.g., describing liquidity, interest rate gap, dealing positions, exposure to counterparties)
- Authorised signature of payments with respect to borrowing transactions.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet							
Risk Category:	Liabilities	Prepared by:					
Business Process:	Borrowings	Date:					
Risk No. 1:	Borrowings are either not recorded or are recorded inaccurately.						
Description:	Financing may be obtained but either inaccurately recorded or not recorded at all in the general ledger or loan register, resulting in misstatement of liabilities.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan¹ (if control not effective)	Comment (substantiation of rating)
1	A loan register is maintained including reference to council resolution approving the loan and schedule of the loan liability and loan repayments from the lender. This also includes details of any Cash Advanced Debentures.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Debt repayments are transacted and recorded in the correct accounting period, and are reconciled to ensure they are matched to the loan schedule where applicable.	Core					
3	A review is undertaken to identify unrecorded loan liabilities at key reporting dates.	Core					
4	All new loan repayment schedules and conditions are checked prior to accepting each loan.	Additional					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood	Consequence			Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Borrowings			Date:			
Risk No. 2:	Loans are taken out without appropriate approval.						
Description:	Should appropriate delegations/approvals not be obtained when taking out loans, the council may be exposed to undue financial risk and/or not obtain the most appropriate loan terms and conditions.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	The loan register and loan approvals are subject to management and/or internal audit review.	Additional					
2	All loans are in accordance with treasury management policy(ies) which outline appropriate approval mechanisms and authority required.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood	Consequence			Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Borrowings			Date:			
Risk No. 3:	Loans are not repaid in accordance with the agreed terms.						
Description:	If repayments required by the loan agreement are missed, made late, or made in the wrong amount, the lender may have the right to impose penalties or call the loan.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure that loan repayments are made in accordance with the loan schedule.	Core					
2	Loan repayments made via automated direct debit, where applicable, are approved appropriately and monitored for on-going relevance.	Additional					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3 Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Borrowings			Date:			
Risk No. 4:	Loan repayments are not recorded at all or are recorded inaccurately.						
Description:	<p>If loan repayments are made but not recorded, liabilities, and cash will be overstated, and interest expense may be inaccurately recorded. If loan repayments are recorded inaccurately liabilities, cash, and interest expense may be misstated.</p> <p>Overpayments reduce cash available for other business activities, while underpayments may give the lender cause (and the right) to call the loan (i.e., to demand that the loan be repaid immediately) or to impose penalties.</p>						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	All additions, deletions, and other changes to the loan register and loan repayment data are undertaken by relevant staff, and are compared to the loan agreement to ensure that they were input accurately. Identified errors are corrected.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood	Consequence			Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Borrowings			Date:			
Risk No. 5:	Lack of working capital to meet council's financial commitments.						
Description:	Borrowings may take many forms (i.e., loans, cash advance debentures). If these borrowings including access to a standby borrowing facility are not managed effectively, council may run out of cash, thereby reducing the operational efficiency of the organisation.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Cashflow forecasts are considered to ensure sufficient working capital is available	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

4.4. Employee Provisions

Introduction

Staff entitlements represent a significant component of council's operating expenditure. In addition to the payroll expense are the provisions for employee entitlements that largely comprise:

- Provision for Annual Leave
- Provision for Long Service Leave.

"Employee entitlements" may be defined as:

"benefit entitlements which employees accumulate as a result of rendering services to the employer up to the reporting date".

Although there are no sections of the Local Government Act that deal specifically with Employee Provisions, a number of accounting standards provide councils with guidance when considering the appropriate recording of these provisions. These are as follows:

- AASB 119 Employee Benefits.

This standard provides prescriptive guidance in terms of the methodology to be used when calculating and recognising the Employee Provisions.

For the risks and controls associated with payroll, please refer to the Payroll Business Process in Section 6.2 of this Framework.

Key Issues/Risks

In relation to Employee Provisions, the major risk faced by councils may be summarised as follows:

- 1) Employee Provisions are either inaccurately recorded or not recorded at all

This risk has been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

To minimise any weaknesses associated with segregation of duties issues in relation to employee entitlements, it is imperative that the recording and processing of leave entitlements is separated from the initial approval of leave, and that access to the payroll master file is restricted to appropriately designated and qualified staff.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Employee Provisions			Date:			
Risk No. 1:	Employee provisions are either inaccurately recorded or not recorded at all.						
Description:	If employees take leave but this leave is recorded against the incorrect employee or not recorded at all, staff entitlements will be inaccurate, and the employee provisions will be misstated. If accruals are not calculated correctly or not at all, staff entitlements will be inaccurate, and the employee provisions will be misstated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Where appropriate, employee provisions are calculated by an automated process and the integrity of the calculations are verified for accuracy to ensure consistency with statutory reporting requirements.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is an approval process for all staff requests for leave and leave taken is recorded by somebody independent from the approval.	Core					
3	There is a process in place to ensure the accuracy and completeness of inputs into the calculation of the employee provisions.	Core					
4	Leave balances are recorded on pay advices for verification by staff.	Additional					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

4.5. Taxation

Introduction

Normally, councils are exempt from Income Tax and Payroll Tax. Accordingly, the main areas of taxation that impact upon council's operations are as follows:

- Fringe Benefits Tax
- Goods and Services Tax
- Pay As You Go ("PAYG").

Accordingly, council should refer to the following legislation and accounting guidance releases for assistance with understanding, calculating and recognising their statutory liabilities in relation to tax:

- The Fringe Benefits Act 1986
- The Fringe Benefits Tax Assessment Act 1986
- A New Tax System (Goods and Services Tax Act) 1999
- Income Tax Assessment Act 1997
- AAG6: Accounting for the Fringe Benefits Tax.

When reviewing the internal control environment surrounding taxation, council should consider the following issues:

- Accurate reporting of taxation liabilities in accordance with statutory requirements
- Timely reporting of Returns/Statements to avoid payment of late lodgement penalty fees
- Regular training of appropriately qualified staff.

Given the complexity surrounding the calculation and reporting of taxation liabilities, it is imperative that council has appropriately qualified and trained staff to perform this task or access to expert advice.

Key Issues/Risks

In relation to Taxation, the major risks faced by councils may be summarised as follows:

- 1) Tax liabilities are either inaccurately recorded or not recorded at all
- 2) Council does not meet statutory reporting / lodgement deadlines.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

To minimise any weaknesses associated with segregation of duties in relation to taxation, it is imperative that the following tasks are separated:

- Calculation, recording and processing of tax liabilities
- Review of tax lodgement documentation
- Payment of tax liabilities
- Approval of payment of tax liabilities
- Receipt of tax refunds
- Recording of tax refunds.

Control Assessment Worksheet							
Risk Category:	Liabilities			Prepared by:			
Business Process:	Taxation			Date:			
Risk No. 1:	Tax liabilities are either inaccurately recorded or not recorded at all.						
Description:	If staff are not provided with adequate training to keep them up to date with all relevant changes in taxation or if council does not obtain tax advice from external tax advisors, then there is the risk that either tax liabilities will be inaccurately recorded or not recorded at all. As a result, the taxation liabilities will be misstated in both the management reports and the financial statements and council may be liable for late lodgement penalty fees and avoidance fees.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	All lodgement statements and returns are reviewed and approved by relevant staff prior to lodgement.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place to ensure relevant staff responsible for preparation of taxation returns, are up to date and comply with relevant legislative requirements.	Core					
3	Relevant staff periodically review a selection of transactions to ensure appropriate tax treatment.	Additional					
4	External advice is sought where staff requires additional technical expertise.	Additional					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Liabilities	Prepared by:					
Business Process:	Taxation	Date:					
Risk No. 2:	Council does not meet statutory reporting/lodgement deadlines.						
Description:	It is important that council recognises and records statutory reporting/lodgement deadlines in order to avoid any late lodgement penalty fees.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure that all taxation returns are lodged within statutory timeframes.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

5. Revenue

5.1. Rates / Rate Rebates

Introduction

Under section 146 of the Local Government Act, a council may impose rates and charges of the following kinds on land within its area:

- General rates
- Separate rates
- Service rates
- Service charges

Rates generally represent the most significant source of revenue for councils and accordingly it is imperative that councils consider the following statutory requirements under the Local Government Act:

- Division 2 – Basis of Rating
- Division 3 – Specific characteristics of rates and charges
- Division 4 – Differential Rating and special adjustments
- Division 5 – Rebates of rates
- Division 6 – Valuation of land for the purpose of rating
- Division 7 – Issues associated with the declaration of rates
- Division 8 – The Assessment Record
- Division 9 - Imposition and Recovery of Rates and Charges.

AASB 118: Revenue also provides guidance for the disclosure of operating revenue, including rates income. For a summary of the recognition, determination and calculation of rates and rate rebates, we refer you to the following documents published by the Local Government Association:

- “Rates and Rating” in “A Framework for Local Government Financial Management”
- Model Rates Policy & Guidelines
- Model Rate Rebate Policy & Guidelines.

For an analysis of the risks and controls specifically relating to the issues surrounding the associated debtors with respect to rates, please refer to ‘Debtors’ business process in Section 3.4 of this Framework.

Key Issues/Risks

In relation to Rates / Rate Rebates, the major risks faced by councils may be summarised as follows:

- 1) Council does not raise the correct level of rate income
- 2) Rates and rate rebates are either inaccurately recorded or not recorded at all
- 3) The Property master file does not remain pertinent
- 4) Rates are not collected on a timely basis

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets
- Responsibility for maintaining the accountability for such assets.

For instance, throughout the revenue process, different individuals are typically responsible for:

- Recording rate revenue and rate rebates
- Approving the rate revenue and rate rebates
- Invoicing the ratepayer
- Maintaining rate records and/or authorising adjustments to rate assessments
- Processing cash receipts
- Following up on rates outstanding
- Performing independent confirmation of rates information and following up on discrepancies
- Rate payer service calls, and/or complaints.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Rates / Rate Rebates			Date:			
Risk No. 1:	Council does not raise the correct level of rate income.						
Description:	If council does not raise the correct level of rate income (due to inappropriate rating methodology or inaccurate data held in rate software), then this will result in variations to cash flow and revenue expectations and possible negative publicity.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Rates are automatically generated by the rate system, including the calculation of rate rebates and other parameters as applicable.	Core					
2	All software changes to rate modelling functionality fully tested and reviewed by relevant staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	There is a rating policy in place that is reviewed annually that provides clear guidance on rating methodology and relevant rebates and remissions in line with legislation.	Core					
4	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Rates / Rate Rebates			Date:			
Risk No. 2:	Rates and rate rebates are either inaccurately recorded or not recorded at all.						
Description:	Errors in rates (i.e., incorrect calculations) can lead to ratepayer dissatisfaction. Revenue and rates debtors in the financial statements may be misstated. Furthermore, the related cash receipts may not be recorded and may be misappropriated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Rates are automatically generated by the rate system, including the calculation of rate rebates and other parameters as applicable.	Core					
2	Annual valuation update is balanced prior to the generation of rates; all mismatches resolved prior to finalising rate generation.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	All rate rebates and adjustments including write offs are appropriately authorised, with reference to Delegations of Authority and source documents.	Core					
4	Rates are generated and tested for accuracy of calculation methodology prior to the rates billing run.	Core					
5	Employees responsible for processing rate payments and rebates cannot process their own payments or rebates unless the transaction is approved by someone independent of the process	Core					
6	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Rates / Rate Rebates			Date:			
Risk No. 3:	The Property master file data does not remain pertinent.						
Description:	<p>“Pertinent” means that the Property master file reflects current conditions, and no unauthorised changes are made. In this context, the pertinence attribute of quality relates both to master file records and to individual data fields within those records. For example, pertinent Property master file records include records for current ratepayers and exclude records for former ratepayers. Inaccurate data may result in rate notices being issued to the incorrect ratepayer and may lead to public dissatisfaction.</p>						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Recorded changes to property master file data and any rate adjustments are compared to authorised source documents to ensure that they were input accurately. An audit trail is maintained for all changes.	Core					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2 Access to the Property master file is restricted to appropriately designated personnel, with a process in place to ensure changes are in line with policies and procedures.	Core					
3 Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment						
Likelihood	Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Rates / Rate Rebates			Date:			
Risk No. 4:	Rates are not collected on a timely basis.						
Description:	If rates are not collected on a timely basis there may be pressure on council's working capital requirements and negative publicity in the community with increased level of section 184 sale of properties and increased legal action.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure that rates are collected in a timely manner and overdue rates are followed up.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

5.2. Grants

Introduction

As part of the normal operations, councils may receive revenue in the form of grants from various organisations. The nature of the grant affects the accounting treatment and recognition of the amount received by council. One issue for council to consider is whether a grant is:

- Restricted – the grant money can only be used for specific programs or purposes
- Unrestricted – the grant money can be used for any operational purpose
- Refundable – if council does not comply with the terms of the grant then all monies are to be refunded by council
- Non-refundable – council is not liable for any funds refund.

If council does not comply with the terms of any “restricted” and/or “refundable” grant, then the monies might have to be refunded to the original provider. Accordingly, it is extremely important that councils comply with the terms of the Grant when utilising the funds provided. Also, if councils are unable to secure re-current grant funding, community expectations may be established for the related service but not able to be met in future periods. For further guidance on the treatment, recognition, and disclosure of grant income, please refer to the following:

- AASB 15 : Revenue from Contracts with Customers (for annual reporting periods on or after 1 January 2018)
- AASB 1049: Whole of Government and General Government Sector Financial Reporting
- AASB 118 : Revenue (superseded by AASB 15 on or after 1 January 2018)
- AASB1004: Contributions

Key Issues/Risks

In relation to Grants, the major risks faced by councils may be summarised as follows:

- 1) Council loses recurrent Grant funding to provide existing service
- 2) Grant funding is not claimed by council on a timely basis or not claimed at all
- 3) Grants are either inaccurately recorded or not recorded at all.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to the ‘Rates / Rate Rebates’ business process in Section 5.1 of this Framework for a discussion of the relevant segregation of duties issues that generally relate to revenue.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Grants			Date:			
Risk No. 1:	Council loses recurrent Grant funding to provide existing service.						
Description:	If councils are unable to secure recurrent grant funding, community expectations may be established for the related service but not able to be met in future periods.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Management and/or council to approve all tied grants (prior to funds being received by council) to ensure that council will be able to meet the terms and obligations of the grant.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Council reviews services where grant funding has ceased to ensure it understands the financial impact on its sustainability.	Core					
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Grants			Date:			
Risk No. 2:	Grant funding is not claimed by council on a timely basis or not claimed at all.						
Description:	If council does not claim and collect grant funding (due to missing the deadline for claims or not submitting the relevant documentation), council will be placed under greater cash flow demands.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place for the regular review of all grant income to monitor compliance with the terms of the grant.	Core					
2	Grant funding is identified as part of the budget process and/or subsequent budget reviews.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Grants			Date:			
Risk No. 3:	Grants are either inaccurately recorded or not recorded at all.						
Description:	If council does not comply with the terms of the grant, repayment may be required. If council does not provide receipts to all providers of grants and then reconcile these receipts to bank statements, grants may not be recorded at all, leading to misstatements in both the management reports and the financial statements.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Grant funding is identified as part of the budget process and/or subsequent budget reviews.	Core					
2	There is a process in place to ensure that grant funding received is reconciled to the budget and the funding agreement.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

5.3. User Pay Income – Fees for Service

Introduction

Councils may generate User Pay Income – Fee for Services through the provision of services to the community. Typical examples of these services may be sporting and recreational facilities. When reviewing the internal control environment surrounding User Pay Income, council should consider the following issues:

- Designating the appropriate fee to be charged to ensure that the user receives and perceives value for money in the service provided
- Appropriate controls surrounding the recording of the revenue
- Adequate access and security controls surrounding cash handling, receipting and banking.

For guidance as to the disclosure requirements in relation to User Pay Income, we refer you to AASB 118 : Revenue (AASB15 ; *Revenue from Contracts with Customers* for annual reporting periods beginning on or after 1 January 2018).

For an analysis of the risks and controls in relation to Debtors (i.e., the collection and recovery of user pay policies), please refer to the *Debtors* business process in Section 3.4 of this Framework. Given that a portion of User Pay Income is represented by cash receipts, please refer to the *Receipting, Cash Floats and Petty Cash*, and *Banking* business processes in this Framework that deal with the specific risks and controls relating to these activities.

Key Issues/Risks

In relation to User Pay Income, the major risks faced by councils may be summarised as follows:

- 1) The fee charged does not reasonably reflect the value of the services provided
- 2) Council does not apply User Pay principles consistently
- 3) User pay income is either inaccurately recorded or not recorded at all.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to the Rates / Rate Rebates business process in Section 5.1 of this Framework for a discussion of the relevant segregation of duties issues that generally relate to Revenue.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	User Pay Income – Fees for Service			Date:			
Risk No. 1:	The fee charged does not reasonably reflect the value of the services provided.						
Description:	If members of the community who pay to utilise a service provided by council and believe that the fee charged does not reasonably reflect the value of the service provided, this could result in negative publicity, public dissatisfaction and loss of revenue.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to establish fees and charges (including GST treatment) which are reviewed annually and adopted by council.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Regular reviews are conducted to ensure formal lease agreements and other council facilities contracts are being met and payments are made on time.	Core					
3	Fees and Charges register is maintained and made available to the public.	Core					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	User Pay Income – Fees for Service			Date:			
Risk No. 2:	Council does not apply User Pay principles consistently.						
Description:	If council does not apply User Pay principles consistently (i.e., by charging different rates for the same service), this could result in negative publicity, public dissatisfaction and loss of revenue.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to establish fees and charges (including GST treatment) which are reviewed annually and adopted by council	Core					
2	Fees and Charges register is maintained and made available for the public.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	There is a process in place to manage and reconcile bonds and deposits.	Core					
4	There is a process in place to ensure the fees and charges are applied in accordance with those adopted in the fees and charges register.	Additional					
5	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	User Pay Income – Fees for Service			Date:			
Risk No. 3:	User pay income is either inaccurately recorded or not recorded at all.						
Description:	If cash receipts from users are inaccurately recorded or not recorded at all by the council, due to intentional or unintentional errors, this will result in cash and revenue being misstated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure that amounts charged are in accordance with council's Fees and Charges register.	Core					
2	Delegations are in place for adjusting or waiving fees for service charges adopted in the fees and charges register.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	There is a process in place to ensure that fee for service income is accounted for.	Additional					
4	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

5.4. Investment / Interest Income

Introduction

All councils have the statutory power to invest money under its control, under section 139 (1) of the *Local Government Act 1999*. Investment income largely takes the form of dividends and interest.

For an analysis of the risks and controls associated with investments, please refer to the 'Investments' business process in Section 3.3 of this Framework.

Key Issues/Risks

In relation to Investment / Interest Income, the major risk faced by councils may be summarised as follows:

- 1) Investment income is either inaccurately recorded or not recorded at all.

This risk has been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or "segregating" incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets and
- Responsibility for maintaining the accountability for such assets.

For instance, in the investment cycle, different individuals are typically responsible for:

- Recording of investment transactions
- Approving new investments
- Following up on reconciliation or confirmation of investments to statements from third parties
- Review and analysis of recorded investments transactions by means of summary reports of activities (e.g., describing liquidity, interest rate gap, dealing positions, exposure to counterparties)
- Authorised signature of payments with respect to investment transactions.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Investment / Interest Income			Date:			
Risk No. 1:	Investment income is either inaccurately recorded or not recorded at all.						
Description:	Inaccurately recorded investment income, investment income recorded in the incorrect period and investments not recorded at all, will result in misstatements in both the management reports and financial statements. Such errors may result from inaccurate data entry of interest rates and/or inaccurate calculation of interest or dividend income.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Investment balances and the interest earned are reconciled on a regular basis to third party statements and are accounted for in the relevant period.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place to ensure that interest attributable to a specific project is correctly recorded in line with the conditions of the agreement or relevant legislation.	Core					
3	Actual investment income compared to budget on a regular basis; variances are investigated.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

5.5. Receipting

Introduction

As a minimum, when reviewing the internal control environment surrounding Receipting, councils should consider the following issues:

- Timely banking of receipts
- Accurate recording of receipts
- Issuing appropriate documentation to customers.

It is widely understood that “the receipt of cash” is a high risk activity. Consideration should be given to ways and means to minimise the risk. For instance, arrangements for the payment of rates might include options for payment of the rates by credit card on-line, telephone or direct to a bank, Australia Post or some other financial institution. Receipt of payments by cheque or EFTPOS might also be encouraged. Such arrangements not only provide convenience for residents, but transfer some of the risk associated with the receipt of cash and act to minimise the risk to staff”.

Another way to minimise the risk associated with cash receipting is to ensure that all cash received is banked on a regular basis. Ideally, this should occur on a daily basis, but staffing levels and level of cash receipts may make this impractical.

Details of further risks and controls associated with cash handling and banking are considered in the ‘Cash Floats & Petty Cash’ in Section 3.1, and the ‘Banking’ Business Process in section 3.2 of this Framework.

Key Issues/Risks

In relation to Receipting, the major risks faced by councils may be summarised as follows:

- 1) Receipts are either inaccurately recorded or not recorded at all
- 2) Receipts are not deposited at the bank on a timely basis.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

The following duties should be segregated within the receipting function:

- Receipting all cash payments from ratepayers/customers
- Recording all cash receipts
- Banking of cash receipts and cheques.

Also, the opportunity for the misappropriation of funds through collusion should be minimised by the regular performance and independent review of bank reconciliations.

Control Assessment Worksheet								
Risk Category:		Revenue			Prepared by:			
Business Process:		Receipting			Date:			
Risk No. 1:		Receipts are either inaccurately recorded or not recorded at all.						
Description:		Inaccurately entered receipts can lead to receipts being allocated to the incorrect customer account. Invalid or duplicated receipts result in an overstatement of cash and understatement of accounts receivable. In addition, postings in the wrong amount may result in an out-of-balance condition between the general ledger and the bank statement. Unrecorded receipts (through either intentional or unintentional errors) may lead to an overstatement of accounts receivable and misappropriation.						
Inherent Risk Assessment								
Likelihood		Consequence		Rating		Accept		
Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)	
1	Customers are provided with a system generated or pre-numbered (manual) sequential tax compliant receipt detailing payment made.	Core						

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Process in place to ensure all monies received (including that from all offsite locations) are receipted and recorded in a timely manner.	Core					
3	Officers who create debtor invoices do not have access to receipting payments and/or reversing receipt transactions.	Core					
4	Receipt transactions are reconciled to the daily takings and out-of-balance banking is corrected promptly.	Core					
5	There is a process in place to ensure that the third party receipting downloads are reconciled to the third party substantiation documents.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
6	Appropriate process is in place to manage the funds collected on behalf of third parties.	Additional					
7	There is a review process for the authorisation of the reversal of transactions.	Additional					
8	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Receipting			Date:			
Risk No. 2:	Receipts are not deposited at the bank on a timely basis.						
Description:	If cash receipts are not banked on a timely basis, then there is an increased likelihood that the receipts will be open to misappropriation and a potential loss of interest revenue.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Prior to and during the banking process, cash is stored securely at all times.	Core					
2	Bank reconciliations are performed on a predetermined basis and are reviewed by an appropriate person. Any identified discrepancies are investigated.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Receipts are deposited regularly at the bank by a person independent from the initial recording of the cash receipts.	Additional					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

5.6. Other Revenue

Introduction

Other Revenue received by councils typically include:

- Donations
- Expiation Fees
- License Fees
- Permits
- Proceeds from the disposals of fixed assets.

For guidance as to the disclosure requirements in relation to Other Income, we refer you to AASB 118: Revenue (AASB 15: *Revenue from Contracts with Customers* for annual reporting periods on or after 1 January 2018).

For an analysis of the risks and controls in relation to Debtors (i.e., the collection and recovery of other income), please refer to the 'Debtors' business process in Section 3.4 of this Framework.

Key Issues/Risks

In relation to Other Revenue, the major risks faced by councils may be summarised as follows:

- 1) Other Revenue is either inaccurately recorded or not recorded at all.

This risk has been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to the 'Rates / Rate Rebates' business process in Section 5.1 of this Framework for a discussion of the relevant segregation of duties issues that generally relate to revenue.

Control Assessment Worksheet							
Risk Category:	Revenue			Prepared by:			
Business Process:	Other Revenue			Date:			
Risk No. 1:	Other Revenue is either inaccurately recorded or not recorded at all.						
Description:	Errors in invoices can lead to a misstatement of debtors and other revenue. If invoices are issued but not recorded or if cash received is not recorded, other revenue, debtors and cash in the financial statements will be misstated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure that all other revenues are accurately recorded and there is an audit trail.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

6. Expenses

6.1. Purchasing & Procurement

Introduction

The recent development of on-line purchasing and e/procurement present councils with the opportunity to enhance the operational efficiency of the purchasing, procurement and disbursement environments. However, it is important that this drive for operational efficiency does not circumvent the essential controls that should exist within this key facet of council's operations.

When reviewing the internal control environment surrounding purchasing and procurement, council should consider the following issues:

- Increasing use of on-line purchasing and e-procurement
- Obtaining value for money in purchasing and procurement
- Delegations of Authority
- Credit cards (please refer to the separate business process for Credit Cards in Section 6.4 this Framework)
- Custody of blank cheques and cheque-signing machines and access to electronic payment facilities.

Please refer to the chapter "Internal Control Framework" in "A Framework for Local Government Financial Management", published by the Local Government Association for a more detailed analysis of the importance of delegations in relation to purchasing and procurement.

For an analysis of the risks and controls specifically in relation to disbursements, tendering and contracting, please refer to the 'Accounts Payable' in Section 4.1 and the 'Contracting' business process in Section 7.1 of this Framework:

Key Issues/Risks

In relation to Purchasing & Procurement, the major risks faced by councils may be summarised as follows:

- 1) Council does not obtain value for money in its purchasing and procurement
- 2) Purchases of goods and services are made from non-preferred suppliers
- 3) Purchase orders are either recorded inaccurately or not recorded at all
- 4) Purchase orders are made for unapproved goods and services
- 5) Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

The following activities should be segregated within the purchasing and procurement cycle:

- Approval of purchase orders
- Recording of the original purchase and liability.

If staffing levels make this control impractical, then purchase orders should be approved in accordance with the delegations of authority.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Purchasing & Procurement			Date:			
Risk No. 1:	Council does not obtain value for money in its purchasing and procurement.						
Description:	If council does not have a robust and rigorous selection process for preferred suppliers, this may result in council not obtaining the best possible price from suppliers and therefore not achieving value for money in its purchasing and procurement.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Council has a Procurement Policy that provides direction on acceptable methods and the process for procurement activities to ensure transparency and value for money within a consistent framework, with consideration of any potential conflicts of interest.	Core					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
<p>2 Employees must ensure all purchases are in accordance with council's Procurement Policy and approved in accordance with the Delegations of Authority and other relevant policies.</p>	Core					
<p>3 The organisation has a process in place to ensure use of preferred suppliers where relevant to maximise the best value for money to council</p>	Additional					
<p>4 All relevant staff should undertake training for the raising of orders, posting of goods received and the requirements of the creditors process.</p>	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
5	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Purchasing & Procurement			Date:			
Risk No. 2:	Purchases of goods and services are made from non-preferred suppliers.						
Description:	If purchases of goods and services are made from non-preferred suppliers, this may result in council not obtaining the best possible price for the goods and services.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Employees must ensure all purchases are in accordance with council's Procurement Policy and approved in accordance with the Delegations of Authority and other relevant policies.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place to review purchasing patterns and ensure maximum use of preferred suppliers.	Additional					
3	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet								
Risk Category:		Expenses			Prepared by:			
Business Process:		Purchasing & Procurement			Date:			
Risk No. 3:		Purchase orders are either recorded inaccurately or not recorded at all.						
Description:		Inaccurate input of purchase orders could lead to financial losses due to incorrect goods or services being purchased. If purchase order entry or processing is incomplete, receipts of goods and/or processing of invoices might be hampered. Stores employees are normally instructed only to accept goods for which purchase orders have been issued, and only up to the quantity specified in each purchase order. In invoice processing, the invoice is normally matched with the purchase order to verify the price and the payment terms.						
Inherent Risk Assessment								
Likelihood		Consequence		Rating		Accept		
Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)	
1	Purchase order numbers are either system generated and/or sequentially numbered.	Core						

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place to ensure all invoices for payment are matched to relevant source documents such as purchase orders where applicable and are in line with Procurement Policy guidelines.	Core					
3	There is a process in place to follow up and action incomplete purchase orders.	Additional					
4	There is a process in place to review purchasing patterns and ensure maximum use of preferred suppliers.	Additional					
5	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Purchasing & Procurement			Date:			
Risk No. 4:	Purchase orders are made for unapproved goods and services.						
Description:	A purchasing function procures goods and services to fulfil council's requirements, as approved by management. The purchasing function should not acquire goods or services for which purchase orders have not been approved by management. Purchase orders might be paper-based or entered on-line.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Employees must ensure all purchase orders are issued in accordance with council's Procurement Policy and approved in accordance with the Delegations of Authority and other relevant policies.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Purchasing & Procurement			Date:			
Risk No. 5:	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.						
Description:	To be considered "pertinent," the master file must reflect current conditions. In this context, pertinence relates both to master file records and to individual data fields within those records. For example, if unapproved suppliers are added to the master file, payments could be made to an unapproved supplier.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Access to the supplier master file and ability to make changes is restricted to appropriately authorised staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place to review the supplier master file for ongoing pertinence and ensure all changes are checked against source documents to ensure they were input accurately.	Additional					
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

6.2. Payroll

Introduction

There are no sections of the Local Government Act that specifically deal with Payroll. However, as a minimum, council when reviewing the internal control environment surrounding payroll should consider the following issues:

- Compliance with statutory obligations (e.g., superannuation)
- Compliance with tax obligations and liabilities (e.g., Group tax)
- Changes in Employee Details
- Time recording
- Leave entitlements
- Payment processes.

One operational issue that can have a financial impact for councils is that of the differential treatment accorded to contractors as compared to employees. When utilising contractors, councils do not recognise these expenses as payroll related costs and are not liable for the employee benefits normally associated with payroll expenses (i.e., superannuation and leave entitlements).

For most councils, payroll represents a significant operating expense. Accordingly, the internal financial controls environment needs to address the significant risk associated with this activity.

Key Issues/Risks

In relation to Payroll, the major risks faced by councils may be summarised as follows:

- 1) Payroll expense is inaccurately calculated
- 2) Payroll disbursements are made to incorrect or fictitious employees
- 3) Time and/or attendance data is either invalid, inaccurately recorded or not recorded at all
- 4) Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file
- 5) Voluntary and statutory payroll deductions are inaccurately processed or without authorisation.
- 6) Employee's termination payments are not in accordance with statutory and enterprise agreements.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

The following segregation of duties should exist within the payroll and personnel cycle. Inquiries from employees regarding payroll calculations and disbursements may arise for a variety of reasons. Any such queries should be followed up by personnel independent of the payroll preparation and disbursement process to ensure:

- Appropriate segregation of duties exists between preparation, disbursement, and human resources (or personnel management); thus, the potential for concealment of fraud is minimised
- Any errors in calculation and/or disbursement are properly identified and corrected and not concealed
- Confidentiality of employee personnel matters is maintained.

Typically, all payroll queries (i.e., requests to change details) ought to be directed to supervisory level staff in the human resource or personnel management department. It is noted that in some councils, human resources are not involved in payroll queries and this segregation of duties issue is not applicable. However, if Management regularly reviews the payroll master file and is advised of all significant changes to detail, the weakness associated with this segregation of duties issue may be reduced.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Payroll			Date:			
Risk No. 1:	Payroll expense is inaccurately calculated.						
Description:	Inaccurate calculation of payroll may result in both management report and financial statement errors. It will also lead to underpayments or overpayments to employees (and the associated cash flow implications), giving rise to the potential for industrial disputes.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Where possible standard programmed formulae perform payroll calculations.	Core					
2	There is a process to ensure all overtime is verified and approved by relevant appropriate staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	There is a process in place to ensure accurate data entry of payroll source documents.	Core					
4	All calculations for generating payroll payments are verified for accuracy.	Core					
5	Payroll is periodically reconciled to the General Ledger accounts.	Additional					
6	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Payroll			Date:			
Risk No. 2:	Payroll disbursements are made to incorrect or fictitious employees.						
Description:	When payroll disbursements are posted to either the wrong employee or fictitious employees, this may cause payroll disputes.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	The payment of the payroll is authorised by appropriate staff not involved in the preparation of the payroll.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Payroll system generates audit reports detailing all payroll changes and there is a process in place to ensure all changes are reviewed and verified against source documents.	Core					
3	There is a process in place to ensure employees are not added to the payroll masterfile, nor details amended, or amounts paid without receipt of the appropriate forms which have been authorised by relevant staff.	Core					
4	Employee records to include employment details and/or contract terms and conditions, authorisations for payroll deductions and leave entitlements.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
5	There is a segregation of duties from those preparing the payroll to those responsible for preparation of source documents (e.g., timesheets, leave requests etc).	Core					
6	Any non-routine payroll queries or unusual payroll transactions/request are referred to management for investigation.	Core					
7	There is a process to ensure employees are made inactive in payroll records upon termination.	Core					
8	The payment for the payroll must be reconciled to a system generated report detailing amount and employee prior to payment.	Core					
9	There is a process to ensure an independent review of proposed payroll payments by authorised staff.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
10	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Payroll			Date:			
Risk No. 3:	Time and/or attendance data is either invalid, inaccurately recorded or not recorded at all.						
Description:	<p>Recording of time not actually worked can lead to the underpayment or overpayments to employees. This may affect cash flow and council operations. Inaccurate input of time worked may result in payroll errors due to underpayments or overpayments to employees.</p> <p>If time worked is not input, there is a risk that employees will not be paid. This can lead to an understatement of the payroll expense and industrial disputes.</p>						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process to ensure all overtime is verified and approved by relevant appropriate staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process to ensure the total of payment summaries for the year is reconciled to the general ledger and payroll and is appropriately reviewed.	Core					
3	Relevant staff are required to complete timesheets and/or leave forms, authorise them and have approved by the relevant supervisor.	Core					
4	There is a process in place to ensure accurate data entry of payroll source documents.	Core					
5	Time recording and attendance exceptions such as TOIL or flexitime are based on relevant policies/agreement are identified, monitored and corrected.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
6	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Payroll			Date:			
Risk No. 4:	Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.						
Description:	To be deemed pertinent, the master files must reflect current conditions. In this context, pertinence relates both to master file records and to individual data fields within those records. For example, if employee bank account numbers are not up to date, payments may be deposited in the wrong employee account. Also, if pay rate / conditions change due to promotion or reclassification and these are not reflected in the payroll master file, this will result in incorrect payroll disbursements.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	The ability to access, modify or transfer information contained in the payroll master files is restricted to authorised staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Managers periodically review listings of current employees within their departments and variances are investigated.	Additional					
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet						
Risk Category:	Expenses			Prepared by:		
Business Process:	Payroll			Date:		
Risk No. 5:	Voluntary and statutory payroll deductions are inaccurately processed or without authorisation.					
Description:	Payroll deductions must reflect current conditions. Inaccurate deductions may arise from improper changes to the payroll deduction tables or errors in processing, resulting in incorrect employee deductions relating for tax, superannuation, etc.					
Inherent Risk Assessment						
Likelihood	Consequence		Rating		Accept	
Possible Controls						
	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan¹ (if control not effective)	Comment (substantiation of rating)
1	The listing of payroll deductions is periodically reviewed by relevant staff for accuracy, compliance with statutory requirement and ongoing pertinence with changes compared to authorised source documents to ensure that they were input accurately.	Core				

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	All payroll deductions must be approved by the relevant employee.	Core					
3	Access to the payroll deduction listing is restricted to authorised staff.	Core					
4	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Payroll			Date:			
Risk No. 6:	Employee's termination payments are not in accordance with statutory and enterprise agreements.						
Description:	Termination of employees outside union agreements or statutory requirements can lead to industrial disputes or litigation.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure termination payments comply with relevant policies, procedures and legislation.	Core					
2	There is adequate training of payroll staff to ensure they are up to date with relevant statutory and enterprise agreements.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

6.3. Elected Members Expenses

Introduction

Under Section 76 (1) of the Local Government Act, *“a member of a council is entitled to the allowance determined by the Remuneration Tribunal in relation to the member's office and indexed in accordance with this section”*.

Elected members, under Section 77 (1) of the Local Government Act, are *“entitled to receive from the council:*

- a) *Reimbursement of expenses ... incurred in performing or discharging official functions and duties; and*
- b) *Reimbursement of expenses...approved by the council specifically or under a policy established by the council”*.

Under Section 79 (1), *“the Chief Executive Officer of a council must ensure that a record (the “Register of Allowances and Benefits”) is kept, in which is enteredin respect of each member of the council:*

- a) *The annual allowance payable to the member; and*
- b) *Details of any expenses reimbursed by the council under Section 77(1) (b); and*
- c) *Details of other benefits paid or payable to, or provided for the benefit of, the member by the council.*

For a comprehensive analysis of the issues surrounding Elected Members' Expenses, please refer to the “Model Elected Members' Allowances and Support Policy”, prepared by the Local Government Association.

Key Issues/Risks

In relation to Elected Members, the major risk faced by councils may be summarised as follows:

- 1) Elected Member expenses and allowances are inaccurately recorded or not recorded at all.
- 2) Elected Members obtain unauthorised private benefit from council.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to “Segregation of Duties” in the Purchasing & Procurement business process for an analysis of the segregation of duties issues that relate generally to expenses.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Elected Members Expenses			Date:			
Risk No. 1:	Elected Member expenses and allowances are inaccurately recorded or not recorded at all.						
Description:	If Elected Members expenses and allowances are not recorded against the correct Elected Member or not recorded at all, the Register of Allowances and Benefits may be misstated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Elected Members must complete and sign an expense reimbursement form when claiming council related expenditure in line with the Policy (including providing valid substantiation) and are authorised by relevant staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	All Elected Members allowances are in accordance with the remuneration tribunal and are paid in a timely manner.	Core					
3	Register of Allowances and Benefits maintained by designated person and is made publicly available. The Register is reviewed to ensure accuracy.	Core					
4	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Elected Members Expenses			Date:			
Risk No. 2:	Elected Members obtain unauthorised private benefit from council.						
Description:	If councils reimburse Elected Members for expenses of a personal nature or not in compliance with the relevant policy, this may result in negative publicity and public dissatisfaction.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Elected Members must complete and sign an expense reimbursement form when claiming council related expenditure in line with the policy (including providing valid substantiation) and is authorised by a relevant officer. The signing of the form confirms that the Elected Members have excluded all items of a personal nature.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Where use of public assets or services by Elected members is identified debtors, invoice is raised for reimbursement	Core					
3	A policy clearly outlines what Elected Members can claim for council related expenses and is clearly communicated and adherence monitored.	Core					
4	Insert any additional or replacement controls identified by the organisation to mitigate risk.	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

6.4. Credit Cards

Introduction

The drive for operational efficiency in the purchasing and procurement has led to a number of developments, such as the proliferation of on-line purchasing and e-procurement. Included in these developments is the use of Credit Cards within council. When reviewing the internal control environment surrounding the use of Credit Cards in the purchasing cycle, councils should consider the following issues:

- Robust process for issuing cards to appropriately designated employees
- Restricted access to Credit Cards
- Appropriate Credit Card limits
- Regular review of credit card statements focusing on both the level and nature of credit card expenses.

For an analysis of the risks and controls associated with the disbursement and reimbursements processes associated with credit card statements/expenses, please refer to the Purchasing & Procurement in section 6.1 on page 134 and Employee Reimbursement Business Activities in Section 6.5 of this Framework.

Key Issues/Risks

In relation to Credit Cards, the major risks faced by councils may be summarised as follows:

- 1) Credit Cards are issued to unauthorised employees.
- 2) Credit Cards are used for purchases of a personal nature
- 3) Credit Card limits are set at inappropriate levels.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to “Segregation of Duties” in the Purchasing & Procurement Business Activity for the risks and controls that generally relate to expenses.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Credit Cards			Date:			
Risk No. 1:	Credit Cards are issued to unauthorised employees.						
Description:	If Credit Cards are issued to employees without the prior approval of management, this may result in the Credit Cards being used to purchase goods and services that have not been approved by management.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure there are appropriate approvals prior to the issuing of Credit Cards and limits.	Core					
2	Credit card holders sign a declaration confirming compliance with council policy and procedures prior to the Credit Card being released.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	Access to credit card details and supporting documentation is restricted to appropriate staff.	Core					
4	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Credit Cards			Date:			
Risk No. 2:	Credit Cards are used for purchases of a personal nature.						
Description:	If Credit Cards are used for purchases of a personal nature, then there is the risk that these items will be paid by council, resulting in overstating the operating expenses in management reports and the financial statements as well as adverse publicity.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Credit card holders sign a declaration confirming compliance with council policy and procedures prior to the Credit Card being released.	Core					

Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2 There is a process in place to approve all credit card transactions to ensure compliance with the policies and procedures covering credit card usage.	Core					
3 Cardholders are advised in the policy and procedures that improper use of the credit card, such as purchases of a personal nature, may result in disciplinary action in accordance with the Code of Conduct.	Core					
4 Cardholders must check their statement to ensure all transactions are correct and identify any transactions of a personal nature which must be reimbursed to council.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
5	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Credit Cards			Date:			
Risk No. 3:	Credit Card limits are set at inappropriate levels.						
Description:	If credit card limits are too high, then this may result in an increase in expenditure and budget overruns. On the other hand, if credit card limits are insufficient, this could reduce the operational effectiveness of the credit card process and result in purchasing delays.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure there are appropriate approvals set prior to the issuing of Credit Cards and limits.	Core					
2	There is a process in place to ensure credit card limits and usage is reviewed for operational efficiency.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

6.5. Employee Reimbursements

Introduction

When reviewing the internal control environment surrounding Employee Reimbursements, councils should consider the following issues:

- Establishment of policy providing guidance to all employees of the appropriate process for employee reimbursements
- Authorisation of employee reimbursements in accordance with Delegations of Authority
- Submission of supporting documentary evidence (i.e., receipts) with all employee reimbursement claims
- Efficient lodgement and processing of employee reimbursements via on-line approval, where appropriate
- Claiming Employee reimbursements via the use of credit cards provided to employees by council, where appropriate.

For an analysis of the risks and controls associated with the petty cash disbursements, disbursements generally and reimbursements of Elected Members' Expenses, please refer to the following business processes in this Framework:

- Cash Floats and Petty Cash in Section 3.1
- Accounts Payable in Section 4.1
- Elected Members' Expenses in Section 6.3.

Key Issues/Risks

In relation to Employee Reimbursements, the major risks faced by councils may be summarised as follows:

- 1) Employees are reimbursed for expenses of a personal nature
- 2) Employee reimbursements are either inaccurately recorded or not recorded at all.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to "Segregation of Duties" in the Purchasing & Procurement business process for an analysis of the segregation of duties issues that generally relate to expenses.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Employee Reimbursements			Date:			
Risk No. 1:	Employees are reimbursed for expenses of a personal nature.						
Description:	If employees are reimbursed for private or personal expenses, this will result in unnecessary expenditures and misstatements in the management reports and the financial statements and may result in negative publicity for the council.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure all employee reimbursements are valid with supporting documentation and approved by appropriate staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	A policy or procedure is in place setting guidelines for employee reimbursements.	Additional					
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Employee Reimbursements			Date:			
Risk No. 2:	Employee reimbursements are either inaccurately recorded or not recorded at all.						
Description:	If employee reimbursements are inaccurately recorded due to processing errors or the raising of fictitious claims, both the management reports and the financial statements will be misstated. If employee reimbursements are not recorded at all, then both the management reports and the financial statements will be misstated.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Employee reimbursements are checked against the supporting documentation and compliance with relevant policies and procedures.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

6.6. Other Expenses

Introduction

Other Expenses may typically include the following:

- Office related expenses (i.e., printing and stationery)
- Operational expenses (i.e., utilities).

When reviewing the internal control environment surrounding Other Expenses, councils should consider the following issues:

- Appropriate approval in accordance with Delegations of Authority
- Timely recording and monitoring against budget.

For an analysis of the risks and controls associated with the recording and disbursement of Other Expenses, please refer to the 'Accounts Payable' business process in Section 4.1 of this Framework.

Key Issues/Risks

In relation to Other Expenses, the major risk faced by councils may be summarised as follows:

- 1) Other Expenses are invalid, inaccurately recorded or not recorded at all.

This risk has been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Please refer to "Segregation of Duties" in the 'Purchasing & Procurement' business process in Section 6.1 for an analysis of the segregation of duties issues that relate generally to expenses.

Control Assessment Worksheet							
Risk Category:	Expenses			Prepared by:			
Business Process:	Other Expenses			Date:			
Risk No. 1:	Other Expenses are invalid, inaccurately recorded or not recorded at all.						
Description:	If processing errors occur, this will result in Other Expenses either being inaccurately recorded or not recorded at all.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure that all other expenses are accurately recorded and there is an audit trail.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

7. External Services

7.1. Contracting

Introduction

For the purposes of this Framework the Contracting Business Activity considers the risks and controls in relation to contracting and tendering. Under Section 49 (1) of the Local Government Act, “a council must prepare and adopt policies on contracts and tenders, including policies on the following:

- a) *The contracting out of services and*
- b) *Competitive tendering and the use of other measures to ensure that services are delivered cost-effectively*
- c) *The use of local goods and services; and*
- d) *The sale or disposal of land or other assets”.*

Section 49 (2), “the policies must:

- a) *Identify circumstances where the council will call for tenders for the supply of goods, the provision of services or the carrying out of works, or the sale or disposal of land or other assets and*
- b) *Provide a fair and transparent process for calling tenders and entering into contracts in those circumstances; and*
- c) *Provide for the recording of reasons for entering into contracts other than those resulting from a tender process”.*

For a further analysis in respect of this issue, please refer to “Competitive Tendering – Service Provision in Local Government Manual”, produced by the Local Government Association of South Australia.

When “in-house bids” are made for tenders or contracts, it is important to ensure that the application and inclusion of overhead costs is accurate. Misstated applied overhead costs can result in an inaccurate tender price being submitted that may expose the internal department to providing a service to council that is unrealistic and not cost-effective.

Key Issues/Risks

In relation to Contracting, the major risks faced by councils may be summarised as follows:

- 1) Council is not able to demonstrate that all probity issues have been addressed in the Contracting process
- 2) Council does not obtain value for money in relation to its contracting.
- 3) Commitments are made for unapproved goods and services

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Segregation of Duties

Within the contracting and tendering process, the following activities should be segregated or be performed by more than one person:

- Pre-selecting contract and tender applicants for consideration by Selection Panel
- Final selection of successful contractors and tenderers
- Contract and tender management (including management reporting and disbursements to service provider).

Control Assessment Worksheet							
Risk Category:	External Services			Prepared by:			
Business Process:	Contracting			Date:			
Risk No. 1:	Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.						
Description:	Council does not only need to comply with probity issues throughout the Contract process but also needs to be able to demonstrate compliance. If probity cannot be demonstrated by council, this will increase the likelihood of negative publicity and public dissatisfaction.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There are robust and transparent evaluation and selection processes in place to engage contractors where relevant in accordance with the Code of Conduct, Conflict of Interest and Procurement Policy.	Core					

	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	The selection panel is made up of appropriate personnel who have declared any relevant conflict of interest to ensure that informed and objective decision is made when selecting contractors.	Core					
3	Council maintains a current contract register.	Core					
4	There is a process in place to ensure that commitments are made with approval by council or delegated staff.	Core					
5	There is a contract management process in place throughout the term of the contract to ensure that supplier/contractor meet their obligations.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
6	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet						
Risk Category:	External Services			Prepared by:		
Business Process:	Contracting			Date:		
Risk No. 2:	Council does not obtain value for money in relation to its Contracting.					
Description:	Poor contract selection and management of ineffective contractors can result in council not obtaining value for money in relation to its Contractors.					
Inherent Risk Assessment						
Likelihood	Consequence		Rating		Accept	
Possible Controls						
	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There are robust and transparent evaluation and selection processes in place to engage contractors where relevant in accordance with the Code of Conduct, Conflict of Interest and Procurement Policy.	Core				

	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	Tender Documents are kept securely.	Core					
3	There is a contract management process throughout the term of the contract to ensure that supplier/contractor meet their obligations.	Core					
4	There is an ongoing management in place that identifies and manages deliverables, key contact clauses, responsibilities, milestones and includes dispute resolution procedures.	Additional					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
5	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	External Services			Prepared by:			
Business Process:	Contracting			Date:			
Risk No. 3:	Commitments are made for unapproved goods and services						
Description:	There is likelihood council can find itself committed to unapproved goods and services for which it will be liable for payment and can result in council not obtaining best value for project and service outcomes						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure that commitments are made with approval by council or delegated staff.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

8. Financial Governance

8.1. Governance

Introduction

Financial governance refers to the methods and processes that a council uses to manage its financial affairs in pursuing its strategic and corporate objectives. Underpinning the effectiveness of the financial governance framework are clear roles and responsibilities and appropriate high levels of accountability.

It comprises the policies and practices by which a council meets its responsibility to the community to achieve long-term financial sustainability.

It is critical that financial governance policies and practices are efficient, effective and transparent, as good financial governance enhances public confidence in Local Government. Also, it helps to ensure that a council is in a position to plan appropriately and make decisions that are properly responsive to the interests of its community.

A council has decision making powers defined under the *Local Government Act 1999* with the Chief Executive Officer as per Section 99 of *Local Government Act 1999* empowered to ensure those decisions are implemented and to undertake responsibility for the day to day operations. The Chief Executive Officer may then delegate (or sub-delegate) a power or function vested in or on the chief executive officer to an employee of council ,committee of council or an authorised person as per Division 4.

Council policies and procedures govern organisational activities and processes and assist in establishing the boundaries and expected standards by which the council operates. This is further enhanced through the application of the Internal Financial Controls Framework generally.

Key issues/Risks

This section on Financial Governance is overarching in that it considers the major risks faced by councils, and are summarised as follows:

- 1) Policies and Procedures do not reflect current requirements
- 2) Delegations of authority are not commensurate with job roles and responsibilities
- 3) Staff are not aware of their responsibilities to ensure good governance including compliance with policies, procedures and relevant legislation.

These risks have been included in the following Control Assessment Worksheets. The worksheets provide a useful starting point however councils should undertake their own risk assessment to identify any additional risks and to confirm the suggested controls ensure the level of residual risk is acceptable to the council.

Council must satisfy itself that, in aggregate, the controls as documented and assessed are sufficient to provide comfort that the financial risk is being managed at an acceptable level.

Control Assessment Worksheet							
Risk Category:	Financial Governance			Prepared by:			
Business Process:	Governance			Date:			
Risk No. 1:	Policies and Procedures do not reflect current requirements.						
Description:	If policies and procedures are not updated on a regular basis, they may not reflect current practices and legislation or changes in the operating environment.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process in place to ensure all policies and procedures referenced in the Better Practice Model are reviewed for appropriateness and relevance.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Financial Governance			Prepared by:			
Business Process:	Governance			Date:			
Risk No. 2:	Delegations of authority are not commensurate with job roles and responsibilities						
Description:	If the delegations of authority are not approved for the appropriateness of a person's role this can undermine the effectiveness of internal controls and increase the organisation's risk of fraud.						
Inherent Risk Assessment							
Likelihood	Consequence		Rating		Accept		
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	Delegations of authority referenced in the Better Practice Model are reviewed for appropriateness, with changes approved as required.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Control Assessment Worksheet							
Risk Category:	Financial Governance			Prepared by:			
Business Process:	Governance			Date:			
Risk No. 3:	Staff are not aware of their responsibilities to ensure good governance including compliance with policies, procedures and relevant legislation.						
Description:	If staff are not aware of their responsibilities they could be making decisions that are not within the scope of their authority which can increase council's exposure to risk and potentially lead to maladministration, misconduct and/or corruption.						
Inherent Risk Assessment							
Likelihood	Consequence			Rating		Accept	
Possible Controls							
	Possible Controls	Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
1	There is a process to ensure staff are aware of policies and procedures referenced in the Better Practice Model.	Core					

Possible Controls		Control Type	Assessing Officer – Title	Reviewing Officer – Title	Control Effectiveness Rating	Action Plan ¹ (if control not effective)	Comment (substantiation of rating)
2	There is a process in place for staff to be made aware of the Code of Conduct and Conflict of Interest.	Core					
3	<i>Insert any additional or replacement controls identified by the organisation to mitigate risk.</i>	Core/ Additional					
Residual Risk Assessment							
Likelihood		Consequence		Rating		Accept	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by reviewing officer.

Appendix A – Likelihood & Consequence Tables

The following tables have been provided as a guide for risk management processes. councils may wish to consider tailoring the parameters provided for their individual circumstances, or use their existing likelihood and consequence parameters.

Likelihood Rating	Description
E. Almost Certain	Is expected to occur in most circumstances
D. Likely	Will probably occur in most circumstances
C. Possible	Might occur at some time
B. Unlikely	Could occur at some time
A. Rare	May occur only in exceptional circumstances

Impact Scale	Socio-political & Community issues	Business Impact	Public Safety	Environment
1. Insignificant	<ul style="list-style-type: none"> No adverse effect on public image Insignificant level of community concern Negligible adverse impact upon social health and well-being of the community which has little or no impact upon established community relationships and links. 	<ul style="list-style-type: none"> Low financial loss – impact of less than \$5k Small delays in undertaking routine needs or tasks for ½ day. 	<ul style="list-style-type: none"> No injuries or no significant injuries Negligible loss or damage to property / infrastructure. 	<ul style="list-style-type: none"> “Nuisance” category under the SA Environment Protection Act (1993) met Contamination – on-site release immediately contained Slight, quickly reversible damage to few species.

Impact Scale	Socio-political & Community issues	Business Impact	Public Safety	Environment
2. Minor	<ul style="list-style-type: none"> Minor adverse effect on public image Minor level of community concern Minor adverse impact upon social health & well-being of the community that may have a minor impact upon established community relationships & links. 	<ul style="list-style-type: none"> Medium financial loss – impact of between \$5k and \$20k Minor impact in undertaking routine needs or tasks for 1 day. 	<ul style="list-style-type: none"> First aid treatment required Minor loss or infrastructure damage. 	<ul style="list-style-type: none"> “Nuisance” category under SA Environment Protection Act (1993) met Some minor adverse effects to few species/ ecosystem parts that are short term and immediately reversible.
3. Moderate	<ul style="list-style-type: none"> Moderate adverse effect on public image Moderate level of community concern Social health and well-being of the community affected by moderately reduced opportunities for participation in community life and/or decision making, moderate incidences of increased isolation etc. 	<ul style="list-style-type: none"> High financial loss – impact of between \$20k and \$50k Capability / production impaired, moderate impact on stakeholders & routine needs or tasks for 1 – 3 days. Minor legal issues, non compliances and breaches of regulation. 	<ul style="list-style-type: none"> Medical treatment required Moderate loss/or infrastructure damage. 	<ul style="list-style-type: none"> “Material” category under the SA Environment Protection Act (1993) met Contamination – on-site release contained with outside assistance Temporary, reversible damage, loss of habitat and migration of animal population, plants unable to survive, pollution requires physical removal, land contamination localised and can be quickly remedied.

Impact Scale	Socio-political & Community issues	Business Impact	Public Safety	Environment
4. Major	<ul style="list-style-type: none"> Major adverse effect on public image Significant level of community concern Social health and well-being of the community seriously affected by major community unrest and/or significant breakdown of established community relationships and links. 	<ul style="list-style-type: none"> Major financial loss - impact of between \$50k and \$100k Loss of capability, disruption to production, major impact on stakeholders & routine needs or tasks for 3 – 5 days. Serious breach of regulation with investigation or report to authority with prosecution and/or moderate fine possible. 	<ul style="list-style-type: none"> Serious & extensive injuries Serious structural damage to infrastructure or serious loss of assets. 	<ul style="list-style-type: none"> “Serious” category under the SA Environment Protection Act (1993) met Contamination – off-site release with no detrimental effects Death of individual animals, large scale injury, loss of keystone species and widespread habitat destruction.
5. Catastrophic	<ul style="list-style-type: none"> Huge effect on public image Community outrage Social health & well-being of the community hugely affected by major community unrest and/or significant breakdown of established community relationships & links. 	<ul style="list-style-type: none"> Huge financial loss/exposure – impact greater than \$100k Loss of production/capability, failure to meet stakeholder’s needs for more than 5 days Projects & programs failure, inability to meet minimum acceptable standards, most objectives not met Major breaches of regulation, major litigation. 	<ul style="list-style-type: none"> Fatalities Critical loss, irreversible damage property / infrastructure. 	<ul style="list-style-type: none"> “Serious” category under the SA Environment Protection Act (1993) met Toxic release off-site with detrimental effect Death of animals in large numbers, destruction of flora species, air quality requires evacuation, permanent and widespread land contamination, irreversible soil erosion or severe compaction, widespread introduction of weeds.

Appendix B – Definition of Key Terms

Appropriate / Authorised Staff / Relevant staff – Is defined as a person that has been assigned responsibility for completing specified tasks and activities which includes, but is not limited to, the approval of loans and liabilities and approval of expenditure.

Core – Considered to be the recommended controls that the council should consider initially as a suitable starting point when reviewing the risks associated with a business process. These controls will typically be applicable for councils of all sizes and locations

Additional – These possible controls are typically those that may be more applicable to councils of a larger size or complexity and where resources are not limited.

Where:

Must – This specifies an unconditional requirement.

Should – This specifies that conformance is expected unless, when applying professional judgment, circumstances justify deviation.

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