



**Date:** 16 April 2018

**Title:** Review of Finance Arrangements and System of Internal Control

**Purpose of the Report:** To advise the Committee on the above and seek endorsement of recommendations in respect of Finance and Internal Control.

**Contact Officer:** Sarah Sandiford, Head of Democratic and Central Services

<b>Corporate Objective/s</b>	<b>To consolidate processes and procedures, ensuring operational efficiency.</b>	
<b>Implications:</b>		
<b>Financial</b>		
<b>Human Resources</b>		
<b>Operational/Service delivery</b>	√	

**1. RECOMMENDATIONS**

- 1.1 To note the report.
- 1.2 To endorse the draft document “Statement of Risk Management and Internal Control” as a replacement for the existing document “Financial Internal Control” (attached as Appendix B).
- 1.3 To endorse and recommend to Council approval of the proposed minor amendments to Town Council Financial Regulations as outlined in point 4 and attached as Appendix C.
- 1.4 To renew the existing resolution approving the continued use of Variable Direct Debits, Standing Orders, BACS and CHAPS payments, as required by Financial Regulations 6.7 and 6.8.
- 1.5 To renew the existing resolution delegating authority to the Town Clerk to vire unspent and available amounts to other budget headings or to an earmarked reserve, as per Financial Regulation 4.1.
- 1.6 To appoint a named Councillor (other than the Chairman or a cheque signatory) to verify bank reconciliations on a quarterly basis as required in Financial Regulation 2.2.

## **2. BACKGROUND**

- 2.1 As part of the regular review of internal processes and procedures, and as a result of queries raised by elected Members, it was decided in November 2017 to undertake a full review of Town Council financial regulations and processes.
- 2.2 The first part of this review included a line by line appraisal of the Town Council Financial Regulations as adopted by Council on 26 January 2015 (with some minor amendments approved by Council on 25 April 2016).
- 2.3 Secondly, a review took place of key guidance documents, including the NALC Model Financial Regulations, the Local Government Transparency Code 2015 and the Governance and Accountability for Smaller Authorities in England (March 2017).
- 2.4 Following review of the documentation, an action list of twelve points was identified, including the need to review and update the Council's "Financial Internal Control" document (last reviewed June 2011).

## **3. UPDATE**

- 3.1 At the time of writing, five of the twelve identified actions have been completed, including an update of the Five Year Financial Plan (approved by Council on 30 January 2018) and amendments to internal protocols.
- 3.2 Two actions are currently in progress: the publication on the website of all contracts over the value of £5,000 (as required by the Transparency Code) and the updating of internal financial procedures.
- 3.3 Three actions require Committee resolution and these are in respect of use of variable direct debits, virements between budgets and appointment of a councillor, other than the Chairman or any cheque signatory, to verify bank reconciliations on a quarterly basis. The Committee is asked to consider the recommendations outlined at 1.4, 1.5 and 1.6.
- 3.4 One action relates to the completion of risk assessments for all new Council activities and as such this remains an ongoing responsibility for Heads of Service.
- 3.5 The final action identified during the review was the need to review and update the Town Council's system of internal control. Financial Regulation 1.6 states that "at least once a year, prior to approving the Annual Governance Statement, the council must review the effectiveness of its system of internal control, which shall be in accordance with proper practices".
- 3.6 In considering best practice from other Councils and the advice of the internal auditor, officers have considered that the existing document (**see Appendix A**), which focusses primarily on financial controls, should be extended to incorporate other areas of risk management. Whilst these controls exist and are

reported regularly to the Policy and Finance Committee, to date there is not a document which brings all the elements of internal control and risk management together in one place.

- 3.7 A statement of Risk Management and Internal Control has therefore been developed (**see Appendix B**) which gives a broader overview of the control and monitoring mechanisms in place at the Town Council. The Committee is asked to consider this document as a replacement for the current Financial Internal Control document.

#### **4. FINANCIAL REGULATIONS**

- 4.1 In reviewing Financial Regulations, the following amendments are proposed for consideration by Committee:
- 4.2 FR 3.1 refers to a three year forecast of revenue, capital receipts and payments. The Town Council currently forecasts a Five Year Financial Plan. The timescales referred to in 3.1 should be amended to reflect current practice.
- 4.3 FR 6 refers to the signature of orders for payment at a council or committee meeting. It is recommended that this be amended to reflect the current operational practice, whereby delegated authority is given to the Town Clerk to approve expenditure in line with procedures, after which expenditure is reported retrospectively to Committee.
- 4.4 FR 6.10 refers to the use of passwords or PIN numbers to access a computer and suggests that a copy be retained in a sealed envelope by the Chairman of the Council. The operational reality is that systems are accessed via specific software on more than one computer and that each user has their own individual log-in details.
- 4.5 FR 6.16 refers to the procedure for changes to account details to suppliers and does not reflect operating practice.
- 4.6 FR 11 refers to procedures in respect of contracts and procurement. It is proposed that these be amended to include use of buying consortia where appropriate. Such organisations benefit from economies of scale by placing bulk orders and also comply with all necessary legislation. Buying in this manner may ensure better value for money and a simplified procurement process.
- 4.7 FR 17.2 refers to risk assessments being done prior to taking on new activity. In practice, any committee report will cover the required information regarding any new activity and the Risk Register will later be updated to reflect this.
- 4.8 The attached Appendix C provides the existing wording of the above Financial Regulations and the proposed amendments for consideration by the Committee.

## **5. CONCLUSIONS**

- 5.1 The conclusion of the review process is that, subject to committee consideration of the recommendations outlined in point 1, adequate systems of internal control are in place to manage all aspects of financial management as well as other potential sources of risk.
- 5.2 This conclusion is borne out by the internal and external auditor reports which have not identified any areas for concern or improvement.

**End.**