

Orlestone Parish Council

**INTERNAL FINANCIAL CONTROLS
AND
PROCEDURES**

Reviewed May 2022

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1. INTRODUCTION

This document outlines the internal controls and procedures that should apply to the management, monitoring, and accounting, auditing, and reporting of the Parish Council's financial and administrative affairs. It has been compiled by the Responsible Financial Officer and approved by members of Orlestone Parish Council.

2. PARISH COUNCILLORS

A parish council is expected to provide public services to the parishioners on whose behalf it acts. Those services, whose provision must necessarily be effective, efficient, and economic, are specified through the continuous interaction between parishioners and Parish Councillors, with due regard to the fund-raising powers of the Parish Council. In that respect, the ultimate responsibility for precept and other funds mandated through local taxation, and the management and proper disbursement of those funds rests solely with the Parish Council as a body and thereby with each Parish Councillor both collectively and severally. No amount of delegation can remove the ultimate responsibility that each and every Parish Councillor has.

3. RESPONSIBLE FINANCIAL OFFICER

3.1 For the purposes of section 151 of the *Local Government Act 1972* (as amended) the Parish Council is required to appoint a person to have responsibility for the proper administration of the Parish Council's financial affairs. That person is known as the Responsible Financial Officer (RFO). The RFO's role can be viewed as akin to that of a Treasurer or Chief Financial Officer.

3.2 The Parish Clerk is appointed as RFO.

3.3 The RFO is inter alia responsible for ensuring that:

- The Parish Council's accounting records are kept correctly and accurately. In particular that:
 - All receipts and payments are promptly and accurately recorded.
 - All income and VAT due to the Parish Council is promptly and fully received.
 - All expenditure is properly authorised and disbursed.
 - All assets exist and are adequately safeguarded.
 - All liabilities are identified and controlled.
 - All controls over the Parish Council's financial affairs function correctly, promptly and adequately.
 - The annual budget, forecast and expenditure to-date reports are properly and promptly prepared.
 - The Parish Council is provided with adequate financial information.
 - All proposed expenditure that may fall into the Section 137 category is correctly identified and recorded.
 - The Parish Council's insurance is at all times adequate and that insurance policies and premiums are reviewed annually by the Parish Council as a body.

- The efficiency and appropriateness of the manner in which the Parish Council conducts its financial affairs is constantly monitored and that recommendations for improvements are made to the Parish Council.

4. DESIGNATED FINANCIAL OFFICER

4.1 For the purposes of paragraph 8 of *The Accounts and Audit Regulations 1996* the Parish Council must appoint a person as its financial officer who must certify (evidenced by signature and date) that the Parish Council's Financial Statements present fairly the financial position of the Parish Council at the end of the financial year to which they relate. That person is known as the Designated Financial Officer (DFO).

4.2 It is implicit that the DFO must have taken steps to satisfy himself/herself that the certification is warranted and, if it is not, must give a qualified opinion.

4.3 This Parish Council usually appoints a parish councillor as its DFO.

4.4 The responsibility for supervising the day-to-day administrative activities (i.e. the non-financial activities) of the Parish Council usually rests with the Chair of the Parish Council. However, the Parish Council may, at its discretion, nominate a councillor other than the Chairman to supervise its daily administrative activities.

4.5 The DFO has the authority of the Parish Council to examine any of its records and to remove for examination any such records in the possession of the Parish Clerk.

4.6 If the Parish Council is without the services of a Parish Clerk, then the financial duties of the clerk should be discharged by the DFO and/or such other persons as the Parish Council deems appropriate. However, in such circumstances the counterbalancing duties set out in 6.2 below may be compromised.

5. PARISH CLERK

5.1 The Parish Clerk is responsible to the Parish Council via the DFO for the day-to-day recording and administration of the Council's financial transactions and for the safe custody of all of the Parish Council's financial records and Petty Cash.

5.2.1. The Parish Clerk should ensure that the Receipts and Payments Ledger (RPL) is at all times up-to-date and that it correctly reflects the consolidated and separate financial position of all the Parish Council's active bank accounts, and that the current financial position on a cash basis can be determined.

5.3.1 The Parish Clerk should ensure that adequate additional financial information is available such that, at any time, that information together with the RPL, would enable the Parish Council's financial position to be determined on an accruals basis.

- 5.3.2 The Parish Clerk should assist the DFO in the preparation and regular updating of periodic budgets, cash flow forecasts and other financial data and reports. The Parish Clerk should also assist the DFO in the preparation of the Annual Financial Statements.
- 5.3.3 The Parish Clerk is the statutory Proper Officer for all matters other than those that by statute are the responsibility of the DFO.

6. SEGREGATION OF DUTIES

6.1 In organisations of any size, segregation (i.e. division) of duties between different individuals is one of the most effective forms of internal control and is a significant factor in avoiding error and monetary loss.

6.2 Given the scale of this Parish Council's activities it is not possible to have any meaningful degree of segregation of duties. To counterbalance this possible diminution in internal control:

- All bank statements and correspondence from the Parish Council's banks should be sent direct from the banks to the RFO (the Parish Clerk).
- The DFO, who would not usually sign cheques, may do so with the Parish Clerk's consent, when circumstances necessitate it. (see 13.3 below)
- The Parish Clerk should not under any circumstances issue instructions to banks and custodians to vary the content or terms of any bank or custody mandate.
- The DFO should from time to time conduct random checks of all Parish transactions and detailed checks of transactions that intuitively contain inherent risks of error or mismanagement. The DFO should provide an audit trail of his/her checks.

7. ANNUAL FINANCIAL STATEMENTS

7.1 The Parish Council should produce Annual Financial Statements for each year ended 31st March. These Financial Statements should consist of:

- A report by the Parish Council's Chair on the council's significant activities during the year;
- An audit Report from the independent internal Auditor
- A table of Receipts and Payments for the current year alongside comparative figures for the previous year
- A Balance Sheet as at the current year end alongside comparative figures for the previous year end;
- An Analysis of Cash Reserves and Trust Funds
- An Analysis of Land Reserves
- Explanatory Notes to the Financial Statements including the basis of accounting adopted by them

- 7.2 The Financial Statements are produced on a 'cash basis'.
- 7.3 Expenditure incorporated in the Financial Statements excludes any VAT suffered by the Parish Council, since this tax is fully recoverable from Her Majesty's Revenue and Customs. However such VAT is fully recorded in the Receipts and Payments ledger.
- 7.4 The content of these Financial Statements is determined partly by statute, partly by generally accepted accounting procedures and practices, and principally by the needs of the primary users of those statements, namely parishioners.
- 7.5 To better suit the needs of parishioners the Parish Council also produces a one page summary of the Income and Expenditure Account and the Balance Sheet.
- 7.6 The Financial Statements should be produced in draft form by the Parish Clerk for presentation to the Parish Council as a body, for discussion and approval. This process should occur as soon as practicable after the year end.
- 7.7 When approved, and signed, the Parish Council should present the Financial Statements, either in their full or summarised forms, to the Annual Parish Meeting of Stanhope. These presentations should be made for information and discussion purposes only.
- 7.8 Any parishioner may request a copy of the Parish Council's latest approved Financial Statements. Payment for such copies shall be discretionary.

8. BOOKS OF ACCOUNT

8.1 As stated above, the Parish Council expects to prepare and present its Annual Financial Statements for the year ended 31st March each year on a cash basis. The Parish Council uses a cash basis of accounting coupled with budgetary control for the day-to-day management of its financial affairs.

8.2 The Parish Council's primary financial record is the Receipts and Payments Ledger (RPL), which preferably should be maintained electronically on a computer. All funds flowing into or out of the Parish Council's bank accounts are promptly entered into the RPL by the Parish Clerk.

8.3 The RPL is "written up" promptly and must be capable of showing the true position of the Parish Council's funds with banks at any moment in time (see also 11.3).

8.5 The RPL and Petty Cash records when taken together should represent the Parish Council's double-entry Books of Account (even though the RPL and Petty Cash records are maintained as electronic records). The RPL and Petty Cash records should be supported by various documents maintained by the Parish Clerk.

8.6 No amendment, corrections or deletions of any entries in the Parish Council's financial records are made without the specific approval of the DFO. Such approval is not given by the DFO where the records have been subject to audit by and approval by the External Auditor - in such situations the matter must be referred to the Parish Council as a body for consideration.

8.7 Records relating to the financial affairs of the Parish Council may not be destroyed, archived, or lodged for safe custody without the approval of the DFO.

8.8 Any Councillor may, via the RFO, examine any of the Parish Council's ledgers or Financial records. The Chair and Vice-Chair of the Parish Council have the absolute right if necessary to examine the Council's ledgers and financial records without either the knowledge or consent of the RFO.

8.9 The DFO has the right to examine any of the Parish Council's ledgers and financial records on demand.

8.10 Members of the public may examine the Parish Council's ledgers and financial records only during the designated annual statutory period.

8.11 The Parish Council's critical primary records (i.e. the RPL and Petty Cash record, cheque book and where appropriate electronic back-ups thereof,) when not in active use, shall be stored in a locked fire-resistant document box or safe.

8.12 Where and when appropriate, other computerised Parish Council records shall be backed-up to computer disc or other suitable medium and stored in a locked fire-resistant document box or safe.

9. BUDGET

9.1 Each year the Parish Council will meet in November/December to agree a proposed income and expenditure budget for the year due to commence on 1st April next. The budgeted income would include the following year's necessary precept to meet net budgeted expenditure. The precept for the following financial year is to be set during November's meeting.

9.2 To aid budget preparation, in November the RFO should present to the Parish Council details of actual income and expenditure for the 7 months to 31st October compared with current budget, with an analysis/discussion of differences.

9.3 The new budget, once approved, should be used during the ensuing year by the RFO to monitor actual income and expenditure. The Parish Council may from time to time flex the budget to reflect changed circumstances.

9.4 The Budget should include a statement on reserves, and recommendations to ensure the use of reserves is appropriate and the amount in reserve is deemed necessary.

10. INCOMING FUNDS

10.1 So far as is feasible the Parish Council should ensure that its bankers receive directly all incoming funds although this may not be possible with small ad hoc receipts. All significant sources of funds (including significant donations) should be known (see 8.1) and should be actively monitored by the DFO and the Parish Clerk. Both significant and insignificant irregular receipts not directly submitted to the Parish Council's bank by the payer should be promptly deposited in the Parish Council's bank account by the RFO.

11. BANKING AND CUSTODY

11.1 As stated in 10 above, any incoming funds received directly by the Parish Council should be banked promptly.

11.2 The Parish Council's cheque books, bank statements and other banking records should be at all times under the secure control of the RFO.

11.3 All petty cash should be securely kept in a lockable box held by the Parish Clerk.

11.4 The DFO from time to time should examine, count, and reconcile the contents of the petty cash box and leave an audit trail that such a check has been carried out.

11.5 The Parish Council insures cash and documents held by the Parish Clerk at home.

11.6 Cash received by the Parish Clerk on behalf of the Parish Council should not be used to top up the Petty Cash box, but should instead be banked intact.

11.7 The DFO should conduct random examinations of transactions to ensure that banking and custody procedures are complied with.

11.8 Local authorities (including Parish Councils) are not covered by the Financial Services Compensation Scheme in the event of their banks becoming insolvent. In order to limit the Parish Council's risk of loss through insolvency, the RFO shall ensure that no more than £50,000 of the Parish Council's funds are held with any one Financial Institution.

12. EXPENDITURE

12.1 All expenditure is authorised by the Parish Council as a body or by committees or subcommittees empowered either under Standing Orders (S.O.) or by direct mandate. Such authorisation or authority would be evidenced by the Parish Council Minutes and/or Standing Orders.

12.2 All expenditure must have supporting documentation. All key financial supporting documents should be initialled or otherwise marked by the RFO or cheque signatories (as appropriate) to prevent duplicate payment.

12.3 Wherever possible, payments for goods or services is made by cheque.

12.4 No contracts for the supply of goods and services may be entered into by the Parish Clerk, or by any Councillor, or by any Committee or by any Subcommittee unless (a) it has been mandated by the Parish Council (as a body or under S.O.), and (b) the RFO has consented.

12.5 In the case of committees and subcommittees the Chair of the Parish Council may give general expenditure consent within a project's approved fixed budget. No expenditure above that approved fixed budget may be made unless approved by the Parish Council as a body.

12.6 The DFO should conduct random examinations to ensure compliance with expenditure procedures and controls.

13. PAYMENTS

13.1 All cheques and instructions to release documents or assets require at least two authorised signatures.

13.2 No cheque is signed unless the signatories are satisfied that the Parish Council as a body or under S.O. has approved the expenditure. Such satisfaction may be gained from personal knowledge of the Council's decisions or from examination of the mandatory supporting documentation or both, as appropriate.

13.3 Under no circumstances may a blank cheque drawn on a Parish Council bank account be signed.

13.4 Cheque signatories must verify and initial cheque stubs.

13.5 Traditionally members of a Parish Council would sign cheques at formal monthly or quarterly meetings, at which the corresponding expenditure would be approved. This procedure, although customary, was not, and is not, a statutory requirement. The dictates of modern business practice, including the requirements of Best Value, mean that cheque signing is no longer restricted to formal meeting dates. Thus, subject to the other internal control requirements of this section, cheques should be signed at such times that most benefit the Parish Council's cash flow management and that meet creditors' demands. Consequently, the minutes of any particular meeting should itemise cheques signed only at that meeting. However, cheques signed between meetings should be reported by the Clerk at the next following meeting.

13.6 Cheques payable to any Councillor should not be signed by that Councillor.

13.7 All cheque book stubs, spoiled cheques, bank statements, paying-in books, etc should be retained for the statutory period.

13.8 Details of all expenditure paid by cheques should be promptly and accurately entered into the RPL by the Parish Clerk.

13.9 No petty cash payments is made unless the Parish Clerk is satisfied that the Parish Council as a body or under Standing Orders has approved the expenditure and that the Chair has been informed of the proposed payment. Such satisfaction may be gained from personal knowledge of Council decisions or from examination of supporting documentation or both as appropriate.

13.10 Expenditure paid in cash should be accompanied by a signed receipt and promptly and accurately entered into the Petty Cash record.

13.11 The DFO conducts random examinations of payments to ensure compliance with payment procedures and controls.

13.12 Cheques for Petty Cash should be made payable as follows: "Please pay cash to(name of Clerk)" as required by the Parish Council's bankers.

14. SPONSORSHIP

14.1 Applicants seeking sponsorship should complete the required application form and return it to the RFO.

14.3 A decision upon sponsorship must be made within 2 months of the receipt of the application by the RFO. Applicants are to be informed of the decision by the Parish Council in writing by the RFO.

14.4 An individual organisation may only apply for sponsorship once during the financial year. Even if the applicant is declined they may not apply again until the following financial year.

15. FIXED ASSETS

15.1 The Asset Register provides a record of the Parish Council's fixed assets. Fixed Assets are all fully written off on acquisition and any disposal proceeds taken to the Income and Expenditure account. The RFO is responsible for ensuring that the Asset Register is kept up to date.

15.2 Since fixed assets are fully expensed on acquisition, including land acquired to date, the Parish Council has no requirement for a fixed assets depreciation policy. However, replacement of some fixed assets held either by the Parish Council may warrant the creation of a sinking fund or similar device for setting aside resources that may be needed for asset replacement.

15.3 The RFO at least once in every financial year should physically examine all significant

fixed assets or, if deemed appropriate, should obtain written third-party independent verification of the existence of assets.

16. TAXATION

16.1 The DFO and Parish Clerk should monitor any withholding of income tax from funds due to the Parish Council and, since it is exempt from tax, should recover any such deductions.

16.2 The DFO and Parish Clerk should ensure that VAT suffered by the Parish Council is accurately recorded and documented and regularly recovered from Her Majesty's Revenue and Customs.

17. CONTINGENT & OTHER LIABILITIES

17.1 The DFO and Parish Clerk should ensure that all significant contingent and other liabilities are identified, monitored, and accurately reflected in the Annual Financial Statements.

18. INTERNAL AUDIT

18.1 As well as the random and detailed checks specified in 6.2 above, the DFO should conduct such additional internal audit checks, tests, and examinations as he/she deems appropriate to satisfy himself/herself that the Parish Council's internal controls and procedures are operating effectively. The DFO should register his test-checking by leaving an audit trail.

18.2 The DFO should be guided in his/her internal audit checks by the advice issued from time to time by NALC and other bodies.

18.3 In practice the Parish Council operates a perpetual, or rolling, internal audit function principally through the DFO's power to examine all, a random selection of, or a judicious few transactions as they occur. The procedures prescribed here and in 6.2 above go some way towards compensating for the lack of segregation of financial and administrative duties.

18.4 Nothing in this document precludes the Parish Council from appointing an appropriately qualified independent person to conduct an internal audit of the Parish Council's affairs. The appointment of an Independent Internal Auditor may be made by the DFO within a general mandate to appoint given by the Parish Council. The Independent Internal Auditor may be dismissed only by resolution of the Parish Council. However, he or she may resign his position at any time and in so doing may exercise the right of address stipulated in 17.6 below.

18.5 The appointment of an Independent Internal Auditor does not absolve the Parish Council from any of the responsibility set out in paragraph 2 of this document.

18.6 Any Independent Internal Auditor appointed by the Parish Council shall undertake such tests, checks, examinations, reviews and enquiries as he deems appropriate to comply with the requirements and guidelines issued by the Audit Commission. The Internal Auditor shall issue to the Parish Council and/or to the Audit Commission such recommendations and reports, as he considers appropriate. The Internal Auditor may address any meeting of the Parish Council or any Parish Meetings on any matter relevant to, or arising from, the proper discharge of his duties.

19. RISK MANAGEMENT

19.1 The Parish Council should regularly monitor and manage the risks that could jeopardise the satisfactory discharge of its responsibilities. Consequently, the DFO and the Parish Clerk should identify and monitor such risks continuously. In addition, the DFO and Clerk should produce an annual Risk Management Analysis setting out (i) all identified risks, (ii) the probability of any single risk crystallising, and (iii) the measures that are in place to counteract/mitigate the risks. The Parish Council's annual review of this Risk Management Analysis should be minuted.

20. BEST VALUE

20.1 Although the Parish Council is below the threshold (currently £500,000 of total revenue) of Best Value set out in the Local Government Act 1999, central government expects Parish Councils below the threshold to "embrace Best Value principles and follow Best Value practices as far as possible."

20.2 The four principles of Best Value are:

- **Challenge** why, how and by whom a service is being provided.
- **Compare** performance with performance of other Parish Councils and organisations providing similar services.
- **Consult** local people and key partners, including local businesses and voluntary organisations in setting council priorities.
- Use fair and open **Competition** wherever practicable as a means of securing efficient and effective services.

20.3 This Parish Council has embraced the spirit of Best Value and additional compliance documentation/statements may be compiled in the future as appropriate.

21. SPECIAL PROJECTS

21.1 On occasion, the Parish Council may instigate, or participate in, special parochial projects such as the Annual Fun Day, Royal or National celebrations, Sporting events or other events of significance.

21.2 In dealing with these projects the general principles embodied in this document shall be applied. However, since other funding bodies may be involved (e.g. The Lottery Fund) a degree of procedural flexibility may be necessary when dealing with special projects. Procedural flexibility notwithstanding, proper internal control should not be compromised.

22. PROCEDURAL MANUALS

The scale of the Parish Council's activities does not currently warrant the production and use of detailed procedural manuals.

23. THIS DOCUMENT

23.1 The DFO may from time to time vary, suspend, amend or supplement all or part of this document, but where this is deemed necessary in respect of any significant matter, the facts shall be reported to the Chair and the Parish Council as a body. The Parish Council may reverse or amend any decision made by the DFO in respect of this document.

23.2 The Parish Council as a body may at any time amend or suspend any or all of the provisions of this document.

23.3 A copy of this document should be made available to all members of the Parish Council, to the Borough Councillor, to the Independent Internal Auditor, and to the External Auditor. Requests for copies of this document from other parties will be referred to the RFO.

23.4 This document should be read in conjunction with the Parish Council's Standing Orders.

23.5 It should be noted that all previous versions of the *Summary of Internal Controls and Procedures* are superseded by this document.

23.6 This *Summary of Internal Controls and Procedures* should be reviewed by the full Parish Council annually.

23.7 In the absence of the Chair all references to the "Chair" shall be construed as applying to the Vice-Chair.

APPENDIX A

For information: Financial Calendar for Orlestone Parish Council.

Month	Meeting	Event
May	Parish Council	Review of the Annual Risk Register and Annual Asset Register.
May/June	Parish Council	To note the Annual Risk Register and Annual Asset Register.
June	Parish Council	Annual Audit, Review of the Standing Orders and Financial Controls.
June	Parish Council	To note the Annual Audit, Review of the Standing Orders and Financial Controls.
October	Parish Council	Agree the Draft Budget for Publication. Agree pay grades

		for forthcoming year for staff
	DFO Audit Inspection	DFO to undertake regular audit inspections
November/December	Parish Council	Proposing the Budget to Council to be adopted.
November/December	Parish Council	Agree the Budget Proposed