



Penrith Town Council

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FINANCIAL RISK MANAGEMENT PROTOCOL

LAW

REGULATORY BACKGROUND

Section 151 of the Local Government Act 1972

Local Councils are required to appoint a responsible financial officer (RFO) to manage their financial affairs.

Local Audit and Accountability Act 2014

The requirement for local Councils to prepare accounts annually and to subject them to external audit comes from this Act, which describes the rights of taxpayers and other interested parties in relation to those accounts.

Accounts & Audit Regulations 2015:

These Regulations, issued under the 2014 Act, set out certain duties relating to risk:

a) Accounting records and control systems

The Council's financial control systems must include—

(a) measures—

- (i) to ensure that the financial transactions of the authority are recorded as soon as, and as accurately as, reasonably practicable;
- (ii) to enable the prevention and the detection of inaccuracies and fraud, and the reconstitution of any lost records; and
- (iii) **to ensure that risk is appropriately managed;**

(b) identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers.

b) Internal audit

An authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

c) Review of internal control system

A relevant authority must, each financial year:

- (a) conduct a review of the effectiveness of the system of internal control; and
- (b) prepare an annual governance statement;

The Annual Governance Statement (AGS), contained within the Annual Governance & Accountability Return, summarises the Council's review of its internal control system. The AGS includes a statement that the Council has carried out an assessment of risks and taken appropriate action to manage them. The AGS must be signed by the Chairman and the Clerk and refers to the Council minute approving the review. This requires that at least once a year the Council must formally consider risks.

OVERVIEW

The greatest strategic risk facing a local council is not being able to deliver its objectives, activities or services that are expected of the Council by the local population.

This Council should be seen to be managing all relevant risks when it reviews its systems and the minutes of the Council are essential evidence of such review. Budget setting, asset register review, risk assessments and insurance reviews are annual activities.

The Town Council's Standing Orders and Financial Regulations cover the vast majority of these risks, but there is a need to identify any issues not covered within these documents and then indicate, via the Council and Committee minutes, the way in which they have been considered and managed.

Council minutes should be checked by the Internal Auditor for evidence of any unusual activity, along with evidence that risks are being identified and managed appropriately.

Risks can be managed in one of three ways:

1. Insurance.
2. Through third parties.
3. In-house.

INSURANCE

The Council's insurance policy includes the following cover:

- Full employer's liability and personal accident cover for its staff and Councillors;
- Public liability insurance, with cover currently provided at the level of £10 million, for injury or damage to third party persons or property;
- Business interruption cover;
- Loss or damage to property;
- Officials indemnity cover; and
- Employee dishonesty insurance, sufficient to cover the maximum amount of money kept in the Council's bank accounts.

Where outside contractors are employed, the Clerk should ensure that the contractor employed has adequate public liability insurance by seeing a copy of the Public liability Insurance Certificate.

RISK MANAGED BY THIRD PARTIES

Some duties or responsibilities can be transferred in part or whole to outside bodies. This should be formally stated in tender/contract documents or agreements, eg contractors being required to submit to the Council their risk assessments and method statements.

INTERNAL RISK MANAGEMENT

Many of the Town Council's responsibilities will be carried out either by directly employed staff, contractors, volunteers or by Councillors and in these circumstances the Council needs to ensure that appropriate risk management systems are in place and that these are reviewed on a regular basis.

A further aspect is that, when spending is budgeted and agreed, Councillors should consider under what powers the Council would be spending the public funds involved. In case of unusual expenditure, the power used to justify such expenditure should be minuted.

INTERNAL CONTROL

RISK ASSESSMENTS

The Council is required to maintain risk assessments. It should be borne in mind that risk assessment is a continual process and needs to be reviewed on a regular basis.

Risk assessments identify relevant areas, together with an evaluation of both the level of risk involved and the means currently used to manage that risk. The assessments detail monitoring and review procedures, identify existing controls and propose actions needed to manage the remaining risks. The Council's risk assessment format exceeds the current compliancy standard required by the external auditing body.

REVIEWS

The Council reviews the effectiveness of its internal control system annually. The Review Schedule records the frequency of review and the nature of the review to remain compliant. This not an exhaustive list however it ensures that the Council's main compliancy goals/targets are met.

INTERNAL AUDIT

The Council complies with governance requirements, has an internal audit plan and will annually recruit an internal auditor.

EXTERNAL SUPPORT

The Council employs the services of an external accountancy service to reduce the risk of fraud, to ensure accurate book keeping and compliancy to changes in accounting legislation and to maintain business continuity. The Council will submit its accounts annually to an external auditor.

REVIEW SCHEDULE

Frequency of Review:	Area/Form of Review:
Compliance:	Updating:
Monthly	<ol style="list-style-type: none"> 1. Payments verified by Town Clerk and made by external accountants. 2. Cash Card payments reconciliation 3. Report of payments made circulated to all Councillors with copy invoices. 4. Payments report approved by next Finance Committee meeting. 5. Bank reconciliation prepared by external accountants and reviewed by two Members. 6. Cash flow management; funds held on deposit. 7. Publication of Minutes 8. Declaration of Interests.
Quarterly	<ol style="list-style-type: none"> 1. VAT reimbursement claim. 2. Budget monitoring statement approved by Finance Committee.
Regularly: Period Unspecified Event driven.	<ol style="list-style-type: none"> 1. Changes in Code of Conduct details. 2. Insurance cover. 3. Asset Register updated. 4. Support staff/cover. 5. Risk assessments.
Annually	
March	<ol style="list-style-type: none"> 1. Insurance (bi-annual) review, for renewal. 2. Internal Audit
April	<ol style="list-style-type: none"> 1. Statement of Accounts. 2. Preparation of Annual Governance & Accountability Return.
May	<ol style="list-style-type: none"> 1. Councillors' Register/Code of Conduct (as necessary). 2. Acceptance of Office. 3. Annual Town Council meeting review of governance. 4. Formal insurance review by Council. 5. Governance Review.
June	<ol style="list-style-type: none"> 1. Completion of Annual Government & Accountability Return. 2. Publication of unaudited annual accounts. 3. Appointment of internal auditor.
Sept/Oct (All part of Budget considerations)	<ol style="list-style-type: none"> 1. Publication of audited accounts and Annual Governance & Accountability Return. 2. Insurance (bi-annual) – Forecast before renewal. 3. Security: Buildings and equipment. 4. Risk Assessment Review.
Sept – Dec	<ol style="list-style-type: none"> 1. Staffing - recommendations for staff pay review for budget consideration. 2. Forward Planning and resolving priorities for next financial year. 3. Formulate budget/precept. 4. Internal Audit.
December	<ol style="list-style-type: none"> 1. Financial Regulations (bi-annual). 2. Standing Orders (bi-annual).
January/February	<ol style="list-style-type: none"> 1. Confirm annual budget 2. Determine and notify precept

GOVERNANCE

Two pieces of legislation set out how local Councils should account for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations issued under that Act. The Act provides that the Secretary of State may make regulations covering:

- how accounts should be kept;
- the form of accounts and how and where and for how long taxpayers can view the accounts and the details behind them; and
- how taxpayers exercise their rights in relation to them.

The Responsible Financial Officer is employed by the Council to oversee the administration of its affairs. The Responsible Financial Officer (RFO) holds a statutory office and is appointed by the Council. The Council has an external accountancy service and is responsible for all the Council's payroll and accounting systems. Financial Regulations apply to both these finance functions and to all staff and Councillors.

It is the Council as a whole, however, that is responsible in law for ensuring that its financial management is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

Under the Regulations, all local Councils are required at least once a year to conduct in accordance with proper practices, a review of the effectiveness of their system of internal control and publicly report the outcome. This annual governance review must include a separate review of internal audit.

INTERNAL AUDIT

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a Council's activities and operating procedures are effective. It is essential that the internal audit function is sufficiently independent of the other financial controls and procedures of the Council which are the subject of review. The person or persons carrying out internal audit must also be competent to carry out the role in a way that will meet the business needs of the Council. Internal audit is an on-going function reporting to the Council at least twice a year.

Approved 10 September 2018

Review: Annually

INTERNAL CONTROLS

The Council's internal controls include the following.

Regular scrutiny of financial records and proper arrangements for the approval of expenditure.

- Separation of duties is incorporated into all financial processes: the RFO, key staff, external accountants and Councillors have clearly defined roles.
- Invoices are checked and verified by the Town Clerk/Services & Contracts Manager.
- Schedules of proposed payments are submitted to the external accountants with copy invoices.
- The external accountants review the proposed payments and, if satisfied, pay the suppliers electronically.
- The external accountants enter payment and other transactions into the Council's accountancy system and complete a bank reconciliation each month.
- The external accountants prepare a report of invoices paid each month, which the RFO submits to all Councillors together with copies of all invoices for that month.
- Each monthly payment report is submitted to the Finance Committee for formal approval and recording in its minutes.
- The most recent monthly or quarterly bank reconciliation and statement are both reviewed and signed by two Committee members who are not the Chairman of the Council; the review is recorded in the Committee's minutes.
- Where payments cannot be made electronically, cheques are signed by two authorised Councillors and the cheque stubs countersigned.

Recording in the minutes the precise powers under which expenditure is being approved.

- Expenditure is recorded with reference to the relevant power.

Regular payroll returns to HM Revenue and Customs.

- Monthly returns are made by the external accountants.

Contracts of employment for all staff.

- All staff have a current contract of employment with written statement of particulars and a relevant job description.

Staff contracts, performance and pay annually reviewed by the Council.

- The Staff Sub-Committee has delegated responsibility to review all aspects of employment governance and make recommendations to the Finance Committee.
- An annual review takes place each autumn to allow its recommendations to be incorporated into the budget planning process.

Systems of updating records for any changes in relevant legislation.

- The Council retains legal/HR support to advise it of any changes to employment legislation and has membership of CALC and SLCC.

Regular claims for reimbursement of VAT.

- Claims for recovery of VAT are made quarterly by the external accountants.

Regular budget monitoring statements.

- The Finance Committee receives regular budget statements prepared by the RFO from information provided by the external accountants.

Minutes properly numbered and paginated with a master copy kept in safekeeping.

- All minutes for Full Council and Committees are numbered and a master copy secured.

Documented procedures to deal with enquiries from the public.

- Communication protocol with the public records that if the enquiry is by email or letter, a response will be made within 5 clear working days.

Risk assessments are up to date.

- All risk assessments are reviewed routinely and updated as required through the relevant committees and cover all aspects of the Council's business.

Documented procedures for document receipt, circulation, response, handling and filing.

- The Council has a Record Management System.

Procedures in place for recording and monitoring Members' interests.

- Members' interests are reviewed annually or when there is a change.
- A register of interests is retained by the Council and published on the website.

Procedures in place for recording dispensations.

- The Town Clerk has the delegated authority to consider Members' dispensations.
- A procedure is in place and members are required to complete a pro forma.

Gifts and Hospitality received.

- All Members are aware of the requirement to complete a record if in receipt of a gift or hospitality.
- A copy is sent to the Monitoring Officer and a copy retained with the Councillor's file.

Adoption of codes of conduct for members and employees.

- Councillors have adopted a code of conduct.
- All employees are issued with a staff manual that includes a copy of the employee code of conduct.

Review of the effectiveness of internal control.

- Annual review considered by Finance Committee and approved by full Council.