



## FINANCIAL RISK MANAGEMENT PROTOCOL

### LAW

#### REGULATORY BACKGROUND

##### **Audit Commission Act 1998**

The requirement for local Councils to prepare accounts annually and to subject them to external audit comes from the Audit Commission Act 1998 (the Act). The Act describes the rights of taxpayers and other interested parties in relation to those accounts.

##### **Section 151 of the Local Government Act 1972**

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

##### **Accounts & Audit Regulations 2015:**

##### **Accounting records and control systems**

(4) The financial control systems determined in accordance with paragraph (1)(b) 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.

##### **Internal audit**

(5)—(1) A relevant 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.

##### **Review of internal control system**

(6)—(1) A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement;

Section 1 of the Annual Return, Statement of Assurance, includes a statement that the Council has carried out an assessment of risks and taken appropriate action to manage them. The statement has to be signed by the Chairman and the Clerk and refers to the minute covering the Council's consideration of the risk assessment. This requires that at least once a year the Council must formally consider risks.

## **OVERVIEW**

The greatest risk facing a local council is not being able to deliver the activity or service that is expected of the Council by the local population.

This Council should be seen to be managing all of these risks when it reviews its insurances and its systems (both financial regulations and standing orders) and the minutes of the Council are essential evidence of such reviews. Budget setting, asset register review, risk assessments and insurance reviews are annual activities.

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.

A schedule of the types of risks is identified by the Audit Commission in their guidelines.

The Parish 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.

Risks are shown as being managed in one of three ways:

1. Insurance.
2. Managed risk through third parties.
3. Managed risk in-house.

## **RISK MANAGEMENT BY INSURANCE**

The Council's assets are protected against loss or damage by insurance. Risk of damage to third party property is covered by public liability insurance, with cover currently provided at the level of £5,000,000.

The loss of cash through theft, dishonesty or fraud is covered by fidelity guarantee. This figure is normally taken as being the equivalent of the end of year reserves plus 50% of the Precept (which should approximate to 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 delegated in part or whole to outside bodies.

## **RISK MANAGEMENT INTERNAL**

Many of the Parish Council's duties 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.

The Audit Commission recommends 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.

The risk assessments identifies areas which need to be considered, together with observations on both the level of risk involved and the means currently used to manage that risk, and details monitoring & review procedures, proposing means of managing the assessed risks.

The Council's risk assessment format exceed the current compliancy standard required by the external auditing body.

The Core Risk Assessments are:

1. Finance
2. Governance
3. Business Continuity
4. Website and IT

### **REVIEWS**

This Council will review the effectiveness of internal control 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 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

<b>Frequency of Review:</b>	<b>Area/Form of Review:</b>
<b>Compliance:</b>	<b>Updating:</b>
Monthly	<ol style="list-style-type: none"> <li>1. All members verify payments list with invoices.</li> <li>2. Payments approved included or appended to minutes.</li> <li>3. Two members authorise payments or sign cheques.</li> <li>4. Funds held on deposit.</li> <li>5. Publication of Minutes</li> <li>6. Declaration of Interests.</li> <li>7. Bank reconciliation.</li> <li>8. Cash flow management.</li> </ol>
Regularly: Period Unspecified – Event driven.	<ol style="list-style-type: none"> <li>1. VAT Refund claim.</li> <li>2. Changes in Code of Conduct details.</li> <li>3. Insurance cover.</li> <li>4. Asset Register.</li> <li>5. Risk assessments.</li> </ol>
<b>Annually</b>	
March	<ol style="list-style-type: none"> <li>1. Insurance (bi-annual) Review, for renewal.</li> <li>2. Internal Audit</li> </ol>
April	<ol style="list-style-type: none"> <li>1. Statement of Accounts.</li> <li>2. Annual Return.</li> <li>3. Formal insurance review.</li> </ol>
May	<ol style="list-style-type: none"> <li>1. Cllrs Register/Code of Conduct (as necessary).</li> <li>2. Acceptance of Office.</li> <li>3. Annual Parish Council meeting review of governance.</li> <li>4. Year – end Annual External Audit Governance Review.</li> </ol>
May - July	<ol style="list-style-type: none"> <li>1. Annual return completion.</li> <li>2. Publication of unaudited year-end accounts.</li> <li>3. Appointment of internal auditor.</li> <li>4. Policy renewal/updates</li> </ol>
Sept – Dec	<ol style="list-style-type: none"> <li>1. Staff - recommendations for staff pay review for Precept consideration.</li> <li>2. Forward Planning and resolving priorities for next financial year.</li> <li>3. Precept/Budget.</li> </ol>

## **GOVERNANCE**

Two pieces of legislation set out how local Councils should behave when accounting for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the Audit Commission Act 1998 and the Accounts and Audit Regulations issued from time to time under the 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 Parish Clerk is employed by the Council to oversee the administration of its affairs. The Parish Clerk, The Responsible Financial Officer (RFO) holds a statutory office to be appointed by the Council. The Clerk has been appointed as RFO for this Council and the Financial Regulations will apply accordingly. The Council has an external accountancy service that acts as the Councils Finance Director (FD) and is responsible for all the Councils payroll and accounting systems and the Financial Regulations will apply accordingly.

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 their 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 each local Council. Internal audit is an on-going function reporting to the Council.

**Approved: July 2016**

**Review: July 2017**

The Council's internal controls will include the following.

## **INTERNAL CONTROLS**

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

- All members verify the payments list against the invoices prior to the Full Council meeting.
- Bank reconciliation are made quarterly by the external accountancy service and verified and signed at a Finance Committee Meeting.
- The verification of invoices is recorded in the minutes.
- The payments list is considered at the Finance Committee and approved and recorded or appended in the minutes.
- The two verifying Council members authorise the payments.
- Cheque payments are authorised by 2 Councillors and the cheque stubs countersigned.
- The verifiers are identified and resolved the following month.

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

- Funds awarded to the community from the Precept are recorded with reference to the relevant power.

### **Regular returns to HM Revenue and Customs.**

- Monthly return via the accountancy service.

### **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 Parish Council have responsibility to review all aspects of employment governance.
- An annual review takes place in September to allow their recommendations to be incorporated into the budget planning process.

### **Systems of updating records for any changes in relevant legislation.**

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

### **Regular returns of VAT.**

- Returns for VAT made annually.
- Regular budget monitoring statements.
- The Parish Council receive quarterly budget statements supplied by the accountancy service.

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

- All minutes for Full Council are numbered

### **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 covers 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'.**

- Member's 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 Parish 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 Councillors file.

**Adoption of codes of conduct for members and employees.**

- Councillors have adopted a code of conduct.

**Review of the effectiveness of internal control.**

- Annual review considered by Finance Committee.