



Item 9 FES 4th May 2021

COLNE TOWN COUNCIL

INTERNAL CONTROLS

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Contents

1. Introduction
2. Structure of Internal Controls
3. Schemes of Delegation
4. Structure of the Council
5. Committee Terms of Reference
6. Corporate Risk Management
7. Financial Risk Management
8. Asset Control
9. Health and Safety Risk Management
10. Human Resources Risk Management
11. Operational Risk Management
12. Risk Assessment
13. Payments made under S137 1972 LGA
14. Other Issues requiring regular reporting.
15. Appendix 1 Checklist for Effective Internal Control

Statement of Internal Control

1. Introduction

- 1.1 Current advice regarding the type of internal controls that are appropriate for good Governance, is set out in 'Governance and Accountability for smaller authorities in England: A Practitioners' Guide (2020 edition)' extracts of which can be found elsewhere in this document.
- 1.2 Colne Town Council (the Council) is responsible for ensuring that its public business is conducted within the law and proper standards, and that public money is used efficiently, economically and effectively.
- 1.3 In order to achieve this, the Council acknowledges that they are responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.4 The Council's system of internal control is based on an ongoing process designed to identify and prioritise the risks to policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively and economically.
- 1.5 The Council's system of internal control is designed to ensure that its activities are carried out properly and as intended and that risks are addressed, mitigated or managed.
- 1.6 It is important that the Council satisfies itself that there is enough evidence to confirm that there are appropriate systems of internal control, and that they are operationally effective. Whilst they are set up by the Responsible Financial Officer (RFO), it falls upon Council members to ensure that they have a degree of control and that the effectiveness of the system is reviewed at least annually. It provides reasonable but not absolute assurance of effectiveness.
- 1.7 Controls should be aligned to processes for managing risk faced by the Council, and that these controls are subject to professional, independent testing and assessment.
- 1.8 The system of internal control provides reasonable, but not absolute, assurance that the risk management objectives of the Council will be met. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures.
- 1.9 At its most basic level, internal control should establish that the Council produces reliable financial reporting and substantially complies with the laws and regulations that apply to it.
- 1.10 At a more advanced level, it should measure the extent to which the Council achieves its strategic and operational objectives: achievement towards these objectives is dependent on other factors such as the impact of events and capacity.

2 Structure of Internal Controls

- 2.1 The Council has adopted Financial Regulations and Standing Orders, based on the model versions prepared by NALC/SLCC and amended to match the practical and operational requirement of the Council, in seeking to deliver its services.

2.2 The Financial Regulations and Standing Orders are reviewed for continued relevance at least annually and amended where necessary by the Town Clerk in conjunction with the RFO with any proposed amendments subject to approval by the Council. For the purposes of accountability for actions taken at Officer level, in the absence of the RFO the Town Clerk assumes responsibility.

2.3 Aligned to these core documents are also a range of supplementary documents covering:

- a) Schemes of Delegation
 - a. By Committee
 - b. By Officer
- b) Committee Terms of Reference
 - a. By Committee
- c) Corporate Risk Management
- d) Financial Risk Management
- e) Asset Risk Management
- f) Health and Safety Risk Management
- g) Human Resources Risk Management
- h) Operational Risk Management
- i) Risk Assessments

2.4 Oversight is carried out through the process of:

- a) Members’ periodic checks
- b) Internal Audit
- c) External Audit

3 Schemes of Delegation

3.1 Standing Committees are provided with delegated powers on the proviso that all financial-related decisions are only made at Committee level within the overall budgets as approved by Full Council.

3.2 Day-to-day practical delivery requires the Town Clerk as the “Proper Officer” to make decisions including financial commitments (under advice from the RFO) and in effect manage all aspects of the Council’s business, including financial management, on behalf of the Council. To do so, an effective Scheme of Delegation has been agreed by Full Council.

4 Structure of the Council

4.1 The Council operates a Committee structure, using working parties to investigate specific issues on a task and finish basis.

4.2 The Current Committee structure and broad remits are detailed below as follows:

Council and or Committee	Frequency	Remit
Full Council	Monthly	Policy, receiving representations, oversight, planning consultee.
Finance, Employment & Services Committee (FES)	Monthly	Finance, Audit, legal, contract reviews, employment, staffing, service delivery.
Events Committee	Bi-Monthly	Events format and delivery.
Allotments Committee	Quarterly	All allotment matters.

5 Committee Terms of Reference

- 5.1 To ensure effective use of resource and Member time, Committees are provided with Terms of Reference in order to understand the remit of each respective Committee.
- 5.2 Where task and finish type works are undertaken through Working Groups, they may also be provided with Terms of Reference to ensure a focus on the specific purpose of the group is achieved.

6 Corporate Risk Management

- 6.1 The Council is in effect a business that needs to consider its risks as any Corporate business does, but with the added challenge of transparency given its public facing responsibilities and its funding stream predominantly through the Precept.
- 6.2 A Corporate Risk Register is reviewed annually by Full Council and used as a process to oversee and control risk at high level with the Town Clerk/RFO then held responsible for breaking each element down into practical specific risk assessments that then guide delivery and implementation of business on a day-to-day level.

7 Financial Risk Management

- 7.1 As custodians of public money, robust, transparent and accountable processes must be in place in order to protect the public interest.
- 7.2 A raft of processes and procedures need to be implemented, supported by a robust accounting system, which is provided through the use of Rialtas software and, specifically, the Omega financial management system.
- 7.3 Key areas of consideration are as follows:

7.3.1 Budgetary controls

- a) The annual budget is prepared by the RFO/Town Clerk, reviewed by FES then presented to and approved by Full Council, as evidenced by reports and minutes in advance of the start of the financial year.
- b) The Precept is formulated on the basis of the budget and future plans and forecasts and is submitted in advance of the deadline set by Pendle Borough Council.
- c) Budgets are set up within the Rialtas system at the start of the year.
- d) At each Full Council, a summary of spend to date against established budget is presented and at FES Committee a detailed set of budgets by income and cost centre codes is presented.

7.3.2 Order/Tender controls

- a) The Financial Regulations list the number of estimates, quotes or full tenders that must be invited depending on the value and nature of the work.
- b) Official orders/letters are issued to suppliers for services which are not regular in nature.

7.3.3 Payment controls

- a) Depending on the nature of the supply, the RFO and External Accountant (under the supervision of the RFO) check the purchase invoice to indicate that the supply has been received, that the supply has not previously been paid and that the invoice calculations are correct.

- b) Purchase orders/emails/letters ordering the work are matched to purchase invoices where applicable and removed from the list of outstanding orders to minimise any duplication of payment.
- c) Payment processing is checked by two members of staff.
- d) Beneficiary bank details are taken from official documents of the supplier and checked on the internet banking system by two officers.
- e) Payments up to £4,000 (exclusive of VAT) are identified separately for payment approval by the RFO under delegated powers with a schedule presented to Full Council of all payments made, highlighting separately those which are greater than £1,000 (inclusive of VAT).
- f) Payments up to £8,500 (exclusive of VAT) are identified separately for payment approval by the Town Clerk under delegated powers with a schedule presented to Full Council of payments made.
- g) Payments above £8,500 to £15,000 are authorised by both the Town Clerk and Chair of FES Committee, providing it does not exceed the original budget agreed by Full Council relating to that specific area of expenditure.
- h) Payments over £15,000 require Full Council approval.
- i) All paid invoices are available for verification by any Member on request and subject to scrutiny of the FES Committee.
- j) Payments made are included in the minutes of the Full Council meeting.
- k) Payment wherever possible should be made by BACS, Debit Card or Direct Debit. On the odd occasion where cheques are required, these will be signed by two Councillors, who are authorised to sign on the Council's bank mandate.
- l) The RFO is authorised to transfer funds from one Council account to another Council account and Terms deposit accounts (Building Society and or Bank) as defined within the Reserves and Treasury Management Policy.
- m) The RFO maintains control of the Internet access card, debit card and cheque book at all times.
- n) When invoices are paid by cheque, they are identified with the cheque number and referenced in the cashbook by the cheque number. This is cross checked with the bank statements.
- o) All other payments will be cross referenced to internet, debit card or direct debit payments.
- p) Changes to bank account details of suppliers are checked before being acted upon.
- q) On-line payments made via Bankline are restricted to the Town Clerk/RFO and above £1,000 are confirmed after payments are entered by another staff member.
- r) The Council maintains a petty cash float in accordance with its Financial Regulations.
- s) The petty cash float is reconciled every month and is part of the banking reconciliation reports sent to the Chairman of the FES Committee for approval.

7.3.4 Income controls

- a) The Town Clerk ensures that the Precept is demanded from Pendle Borough Council (PBC) within the specified timeframe, and that amounts received match the demand.
- b) The Town Clerk ensures that the Precept is received when due.
- c) The RFO ensures that other receipts (deposit interest, wayleaves and lease rent) are received when due and correctly calculated.
- d) Receipts are issued for cash and cheques received and a copy kept.
- e) Income is banked promptly.
- f) VAT repayment claims are made monthly via a Section 126 claim.
- g) The RFO ensures that all invoices are addressed to the Council.
- h) The RFO ensures that proper VAT invoices are received where VAT is payable.
- i) The RFO maintains a VAT account to show that the correct amount of VAT is reclaimed.

7.3.5 Payroll controls

- a) Staff contracts are prepared by the Town Clerk and agreed by the FES Committee under delegated powers to the Chairman to sign and/or agree minor amendments.
- b) The appointment of the Town Clerk and or RFO by the Staffing Committee must be ratified by Full Council.
- c) Contracts are reviewed and amended where necessary by the Town Clerk and approved by the Chairman of the FES Committee.
- d) The Town Clerk's contract is prepared by the Town Clerk with the direct involvement of the Chairman of the FES Committee following the FES Committee agreeing with the contract terms.
- e) All employees are paid under PAYE as an employee and the necessary system for HMRC is in place.
- f) All employees' salaries are set by the FES Committee within the budget approved for employees.
- g) Salaries are paid by bank transfer.
- h) The RFO will ensure that all the necessary payroll returns are made to HMRC and will retain evidence that this has been done.

7.3.6 Staff expenses

- a) Staff submit a request for reimbursement of monies owing by way of an expense claim. The Town Clerk will approve the reimbursement of the monies owed.
- b) The expenses cover any out of pocket, motoring and other expenses as laid down by joint SLCC/NALC guidelines.

7.3.7 Cash Book/Bank reconciliations

- a) The cash book is kept electronically and maintained up to date from original documents, including cash received, cash payments, standing orders, direct debits, bank transfers made and cheques as they are prepared.
- b) The cash book is reconciled to the bank statement monthly.
- c) Reconciled accounts are presented to the Chairman of the FES Committee on a monthly basis.
- d) The latest financial position and movements of the Council can be traced back to the expenditure approved at previous meetings.

7.3.8 Financial reporting

- a) A summary of spend against budget is presented at every Full Council meeting.
- b) A summary of spend against budget plus detail by cost heading budget control, comparing actual receipts and payments to the budget, is prepared on a monthly basis and presented to the FES Committee.
- c) A report shall be provided to the Finance, Employment & Services Committee and the Full Council with a monthly statement of Income and Expenditure under each head of the budgets and shall show any variances.
- d) At Year-End, a report shall be provided to the Finance, Employment & Services Committee comparing actual spend against current budget, highlighting any material variances. For this purpose, "material" shall be in excess of £1,000 or greater than 15% of the total cost centre budget, whichever is the higher.

8 Asset Control

8.1 The Town Council owns a number of land sites and properties as follows:

- The Town Hall
- The Annex

- 5 Shops
- Car Park (6 spaces) opposite Town Hall
- Alkincoates Park
- 6 Playgrounds
- 3 Multi Use Games Areas
- 1 Kickabout area
- 4 Tennis courts
- 2 Bowling Greens
- 20 Allotment Sites
- Primet Community Centre
- 21 Bus Shelters (in the town centre and key routes)
- 105 on-street Benches, 47 in Alkincoates Park
- Town Centre CCTV – 31 Cameras

8.2 The Town Clerk maintains a full asset and risk register.

8.3 The existence and condition of assets is checked on an annual basis by the Town Clerk. The Council administers a full maintenance programme which is outsourced to an approved local contractor, and appropriate revenue budgets are set each year to ensure that all assets are kept in a good usable condition.

8.4 In the case of building ownership, a condition survey will be carried out every 10 years.

8.5 The adequacy of insurance of the Council's assets is considered in advance of the insurance renewal.

9 Health and Safety Risk Management

9.1 The Council has a Health and Safety Policy which is reviewed at least every two years.

9.2 All activities carried out are risk assessed annually and whenever there is a material change to any activity.

9.3 Events are supported by an Event Management and Safety Plan and specific Risk Assessments. Public Liability insurance cover is maintained, which extends to volunteers subject to formal registration.

10 Human Resources Risk Management

10.1 Employment Legislation is constantly changing and as a responsible employer the Council seeks to keep up to date through the use of an external HR provider that specialises in such advice.

10.2 As part of this relationship, a full suite of HR Policies are in place, that guide proper Staff Management.

10.3 Staffing issues are managed through the FES Committee with agenda items added as and when required. Such items are classed as Private and the public are excluded.

11. Operational Risk Management

11.1 All operational issues carry risk and in order to obtain a collective overview of this, in addition to the Strategic risks facing the Council, the risk register covers the day-to-day risks facing the Council in carrying out its daily duties through the use of Officers.

11.2 With small operational teams, the risk of loss of knowledge and experience arising out of long-term absence and/or staff moving on is increased. To reduce this risk, there is a need for standard operating procedures to be developed around each area of work carried out.

12. Risk Assessment

12.1 A suite of risk assessments have been developed and are subject to annual review and whenever there is a material change to any activity.

12.2 The format for these assessments is based on identification of risk (analysed as likelihood and impact) from low to high, in order that greater emphasis can be placed on managing the higher levels of risk and on reducing or even eliminating it altogether e.g. by not doing the activity anymore.

12.3 In terms of Health and Safety, this is managed using the underlying principles of the HSE guidance contained in HSG65 and, where events are involved, the "Purple Guide".

12.4 Building ownership risk is managed through the identification of statutory requirements e.g. Gas Safety, Legionella, Electrical Safety and covered by a suite of individual policies.

12.5 Risk Assessments are carried out annually by the Town Clerk and presented to the FES Committee meeting where they are reviewed and challenged then recommended for approval by the Full Council. The Assessments are then reviewed and minuted as approved by the Full Council.

13. Payments made under section 137 of the 1972 LGA ("The Free Resource")

13.1 The Council does not currently have the General Power of Competence, and therefore power operates payments under S.137 as instructed below:

- a) A separate S137 account will be maintained in the accounting records.
- b) The RFO will calculate the maximum amount of S137 expenditure able to be made each year and will ensure that it is not exceeded. The amount will be confirmed to the Council - current Electorates registered on the electoral roll of 13,205 x £8.41 per elector = £111,054.

*The Ministry of Housing, Communities and Local Government (MHCLG) has notified the National Association of Local Councils (NALC) that the appropriate sum for the purpose of section 137(4)(a) of the Local Government Act 1972 (the 1972 Act) for parish and town councils in England for 2021-22 is £8.41 per elector.

- c) The corresponding legal power will be identified in advance of any expenditure.
- d) Where requests for expenditure from S137 are made, it will be made clear at the FES meeting where the payment is to be approved.
- e) A minute authorising expenditure from S137 will be recorded on each occasion.

14. Other issues requiring regular reporting

14.1 In addition to the areas covered above, there are a number of other processes and procedures that also require further attention. These form part of the normal reporting structure whether regular items on Committees or requiring one-off report submissions.

14.2 To ensure completeness these are detailed below, together with other areas covered within this document.

FC = Full Council; FES = Finance, Employment and Services Committee

Item	To	Frequency	When
Internal Controls Document	FES	Annually	Mar

Internal Controls Document Checklist – review 25% each quarter	FES	Quarterly	Mar/Jun/Sep/Dec
Annual Review of Contracts	FES	Annually	May
Standing Orders	FC (via FES)	Annually	Mar
Financial Regulations	FC (via FES)	Annually	Mar
Terms of Reference	FC (via FES)	Annually	May
Budget Scrutiny	FES	Each meeting	Each meeting
Budget Summary	FC	Each meeting	Each meeting
Review Rental Income	FES	Annually	Oct
Adoption of and adherence to codes of practice for procurements and investment	FES	Annually	Jun
Arrangements to deter and detect fraud and/or corruption	FES	Annually	Jul
Damage to third party property or individuals as a consequence of the provision of services or amenities	FES	On each instance	Each meeting
Loss of income or the need to provide essential services following critical damage, loss or non- performance by a third party	FES	On each instance	Each meeting
Loss of cash through theft or dishonesty	FES	On each instance	Each meeting
Legal liability as a consequence of asset ownership	FC (via FES)	On each instance	Each meeting
Security of vulnerable buildings, amenities or equipment	FES	Each meeting	Each meeting
Maintenance for vulnerable buildings, amenities or equipment	FES	Annually	Aug
Provision of services carried out under partnership agreements	FES	Annually	Aug
Banking arrangements	FES	Annually	Feb
Provision of amenities / facilities for events to local community groups	FES	Annually	Feb
Vehicle or equipment lease or hire (if applicable)	FES	Annually	Feb
Corporate Risk Register	FC (via FES)	Annually	Jan
Financial Risk Register	FC	Annually	Jan
Health and Safety Risk Register	FC	Annually	Jan
Operational Risk Register	FC	Annually	Jan
Human Resources Risk Register	FES	Annually	Jan
Asset Register	FC (via FES)	Annually	Mar
Insurance Cover	FC (via FES)	Annually	Mar
Event Management Plan	FES	Annually	Jan
Cash Reconciliation	FES	Monthly	When required
Precept first Draft Budget	FES	Annually	Oct
Precept Second/final Draft Budget	FES	Annually	Nov
Precept Budget and approval	FC	Annually	Dec
Call for Precept	RFO	Annually	Latest Jan
Payroll- summary and check to contracts	FES	6 monthly	Jul/Jan
Inspection of Assets – 25%	FES	Quarterly	Mar/Jun/Sep/Dec
Internal Audit appointment	FC (via FES)	Annually	May
Internal Audit	FES	6 monthly	Sep/Mar

Annual Governance Statements	FES	First draft	Apr
Annual Governance Statements	FC	Approved	May
Notice of Conclusion of Audit	RFO	As agreed timetable	Jun/Jul
Review of sample of minutes to ensure legal powers in place, recorded and correctly applied	FES	Annually	Sep
Testing of income and expenditure from minutes to cashbook, from bank statements to cashbook, from made or received minutes to statements etc. including petty cash transactions	FES	Annually	Sep
Recording in the minutes the precise powers under which expenditure is being approved	FES	Annually	Sep
Regular returns to HMRC for VAT and payroll	FES	Annually	VAT – Apr Payroll – monthly and Jul
Contracts of employment for all staff, annually reviewed by the Council	FES	Annually	Apr
Monitoring grants or loans	FES	Annually	Apr
Policy Reviews	FES	Staged in year	As per schedule
Monitoring of Members' interests and Gifts and Hospitality received	FES	Annually	Apr

Appendix 1 -Checklist for Requirement of Effective Internal Control		
	Yes	No
1. Risk		
a) Are Risk Management Arrangements in place?		
• Corporate		
• Financial		
• Health & Safety		
b) Does a scan of the minutes identify any unusual activity?		
c) Do Minutes record the Council carrying out an annual risk assessment?		
d) Is insurance cover appropriate and adequate?		
e) Are internal financial controls documented and regularly reviewed?		
2. Asset Controls		
a) Does the Council keep an Assets Register of all material assets owned?		
b) Is the register up to date?		
c) Do asset insurance valuations agree/reconcile with those in the Register?		
3. Building Ownership		
a) Are statutory services carried out?		
b) Are assets maintained to an acceptable standing of repair?		
c) Are utility costs regularly monitored?		
d) Are leasehold interests effectively managed?		
e) Do tenants have up to date rental agreement and are they effectively managed?		
4. Budgetary Controls		
a) Has Council prepared an annual budget in support of precept?		
b) Is actual expenditure against the budget and the reasons for significant variances regularly reported to Council?		
c) Are there any significant unexplained variances from budget?		
5. Income Controls		
a) Is income properly recorded and promptly banked?		
b) Does the precept recorded in the cashbook agree to the District Council's notification?		
c) Are security controls over cash adequate and effective?		
d) Are rents collected as they fall due or arrears arrangements adhered to?		
e) Are other debts collected as they fall due or are credit control escalation arrangements adhered to?		
f) Are invoices raised promptly and accurately after as appropriate trigger event or milestone?		
6. Bank Reconciliations		
a) Is there a bank reconciliation for each bank account?		
b) Is the bank reconciliation out regularly on the receipt of statements?		
c) Are there any unexplained balancing entries in any reconciliation?		
d) Is the bank mandate up to date?		
7. Petty Cash Procedures		
a) Is all petty cash spent, recorded and supported by VAT invoices/receipts?		
b) Is petty cash reimbursement carried out regularly?		

8. Payroll Controls		
a) Do salaries paid agree with those approved by Council?		
b) Are other payments to the Town Clerk reasonable and approved by Council?		
c) Have PAYE/NIC/pensions been properly operated by the Council as an employer?		
d) Are HR matter (e.g. recruitment, objectives, appraisals, annual leave) effectively managed?		
9. Year- End Procedures		
a) Are year-end accounts prepared on the correct accounting basis?		
b) Do accounts (e.g. fixed assets, debtors, creditors, cash) agree with underlying records and registers?		
c) Have accruals and prepayments been recorded correctly?		
d) Is there an audit trail from underlying financial records to the accounts?		
e) Is the external audit carried out promptly with any errors or control deficiencies report and action promptly?		