

Gosford and Water Eaton Parish Council

Internal Financial Controls Policy 2021/22

Adopted June 2021 – to be reviewed annually

It falls on the Councillors to exercise a reasonable degree of control over financial matters.

Particularly as, during the completion of the Annual Return, Councillors have agreed the following:

We acknowledge as the members of: [Gosford and Water Eaton Parish] Council our responsibility for ensuring that there is a sound system of internal control, including the preparation of the accounting statements. We confirm, to the best of our knowledge and belief, with respect to the accounting statements for the year ended 31 March [2021], that:

- 1.** We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements. (i.e. prepared its accounting statements in accordance with the Accounts and Audit Regulations.)
- 2.** We maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness. (i.e. made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge).
- 3.** We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances. (i.e. has only done what it has the legal power to do and has complied with Proper Practices in doing so.)
- 4.** We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations. (i.e. during the year has given all persons interested the opportunity to inspect and ask questions about this authority's accounts.)
- 5.** We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required. (i.e. considered and documented the financial and other risks it faces and has dealt with them properly)
- 6.** We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems. (i.e. arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether internal controls meet the needs of this authority.)
- 7.** We took appropriate action on all matters raised in reports from internal and external audit. (i.e. responded to matters brought to its attention by internal and external audit.)
- 8.** We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and, where appropriate have included them in the accounting statements. (i.e. disclosed everything it should

have about its business activity during the year including events taking place after the year end if relevant.)

Clerk / RFO's Responsibility

It is the Clerk / RFO's responsibility to ensure that proper internal controls are set up and adhered to in accordance with the Financial Regulations. These controls must ensure that:

- income and expenditure are in accordance with budgets;
- all income that is due is actually received;
- expenses have been properly authorised before being paid;
- the books of account are maintained on a regular basis and are regularly reconciled.

It is the for the Clerk to present a monthly statement to the meeting showing the Council's bank balances, etc. and a quarterly statement showing the Council's detailed budget compared with the income and expenditure to date.

Council / Councillors' Responsibility

It is the Council / Councillors' responsibility to:

- carefully scrutinise all invoices and other supporting documents against the list for payment submitted at the Parish Council meeting prior to the signing of the cheques;
- check that the bank reconciliation is done regularly;
- check to ensure that all income due is actually received;
- check that the financial statements produced to Council agree with the accounting records.

Not every item has to be checked, but sufficient tests should be made to enable the person carrying out the tests to be satisfied that the accounting records are correctly maintained. One Councillor should undertake the task for at least a period of six months to ensure continuity.

Internal Auditor's Responsibility

The internal controls are not to be confused with the Internal Auditor, who must be independent, and who will carry out tests needed to satisfy themselves that the internal controls are adequate and working. They also have to sign the External Audit form and confirm that:

- A. Appropriate accounting records have been kept properly throughout the financial year.
- B. The authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
- C. The authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.

E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.

F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.

G. Salaries to employees and allowances to members were paid in accordance with the authority's approvals, and PAYE and NI requirements were properly applied.

H. Asset and investments registers were complete and accurate and properly maintained.

I. Periodic and year-end bank account reconciliations were properly carried out.

J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.

L. During summer 2020/21 this authority has correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations.

This Policy was adopted at the Council meeting on June 2021 to be reviewed annually as part of the year end processes.

RESERVES POLICY

Gosford and Water Eaton Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Types of Reserves

Reserves can be categorised as general or earmarked.

Earmarked reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement

programme can be achieved without the need to vary budgets.

- Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
- General Reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

Earmarked Reserves

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

Any decision to set up a reserve must be made by the Council.

Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

All Earmarked Reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held.

Reviewing the Council’s Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

General Reserves

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Setting the level of General Reserves is one of several related decisions in the formulation of

the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its earmarked reserves to provide short term resources.

Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay one month's salaries to staff in General Reserves at all times.

Opportunity cost of holding reserves

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy. However, there is an "opportunity cost" of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt, the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds.

However, using reserves to pay off debt in this way would leave the Council with no funds to manage unexpected risks nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

The current level of general reserves to be held by the Council is three twelfths of the annual precepted figure, i.e. to fully cover three months' expenditure. The figure of three twelfths of the precept is to be held rather than three months' expenditure costs.

Grant Policy

A grant is any payment or gift made by the Parish Council to an organisation for a specific purpose that will benefit the Parish, or residents of the Parish, and which is not directly controlled or administered by the Parish Council. The law requires that Section 137 grants must be “in the interests of or will directly benefit the area or its inhabitants, or of part of it, or some of it” and “the direct benefit should be commensurate with expenditure”. Similar considerations will apply when considering applications for other grants.

Policy

The Parish Council awards grants, at its absolute discretion, to organisations which can demonstrate a clear need for financial support to achieve an objective which will benefit the Parish by:-

- Providing a service
- Enhancing the quality of life
- Improving the environment, and promoting the Parish of Gosford and Water Eaton Parish in a positive way.

The Parish Council will NOT award grants to:-

- Private individuals,
- Commercial organisations,
- Purposes for which there is a statutory duty upon other local or central government departments to fund or provide,
- “Upward funders”. ie.local groups where fund-raising is sent to a central HQ for redistribution.
- Political parties,
- Religious organisations: unless for a purpose which does not discriminate on grounds of belief.

This list is not exclusive, and may be added to at the council’s discretion.

Only one application for a grant will be considered from any organisation in any one financial year.

Ongoing commitments to award grants in future years will not be made. A fresh application will be required each year. This will be at the discretion of the council.

Grants will not be made retrospectively.

Application Procedure

Organisations requesting financial assistance for amounts up to of £500 are required to submit to the clerk in the financial year of their funding requirement.

- A completed application form must be supplied to the clerk (grant forms can be obtained by request to the clerk or a councillor)

All grants awarded will be subject to regular 'report back' to Gosford and Water Eaton Parish Council as to

- progress and/or community benefit.
- Assessment Procedure

At the Parish Council's annual budgeting meeting an amount will be set aside for grants will be awarded during the following financial year. A decision upon an award will remain for approval by the Parish Council in full council meetings. Submissions can be sent at any time in the year.

Once the grants budget is exhausted, the Parish Council will only consider emergency requests for assistance, and generally only from organisations with whom it has close links.

An emergency grant request, once received in writing, will be considered at the next meeting of the Parish Council.

Each application will be assessed on its own merits..

The Parish Council may make the award of any grant or subsidy subject to such additional conditions and requirements as it considers appropriate. The Parish Council reserves the right to refuse any grant application which it considers to be inappropriate, or against the objectives of the Council.

Nothing contained herein shall prevent the Parish Council from exercising, at any time, its existing duty or power in respect of providing financial assistance or grants to local or national organisations under the provisions of the Local Government Act 1972, Section 137.

Successful Applications

A grant award must only be used for the purpose stated on the application. If the organisation is unable to use the money, or any part of it, for the purpose stated, then all monies, or unexpended part of such monies must be returned to the Parish Council. The Parish Council may request proof of expenditure.

Organisations receiving grants are required to advise their users/members that the grant or equipment has been received from Gosford and Water Eaton Parish Council. Where appropriate, the Parish Council

may require a notice to be affixed.

Where equipment is gifted to an organisation, The Parish Council requires that it be insured and maintained at the expense of the user.