

**STATEMENT ON INTERNAL CONTROL  
FOR THE YEAR ENDING 31 MARCH 2008****1 Scope of responsibility**

Rye Town Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Council is also 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 arrangement for the management of risk.

**2 The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process, designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently and economically.

**3 The internal control environment**

The key elements of the internal control environment are summarised below:

**a) Policy and decision-making**

The Council has agreed *Standing Orders* which details how its meetings are conducted. Its *Terms of Reference for Council and Committees* sets out the responsibilities of the Council and its committees and the delegation of decision-making.

The Committees are responsible for most decisions and all decisions must be in line with the Council's overall policies and budget. Any decisions a Committee wishes to take outside of its terms of reference must be referred to the Council as a whole to decide.

A 'call in' procedure allows the Council to review Committee decisions before they are implemented, thus presenting the opportunity for a Committee decision to be reconsidered.

The *Standing Orders* were last amended on 21 January 2008 to allow the Council to give effect to para 12(2) of the Local Authorities (Model Code of Conduct) Order 2007 no. 1159 (which gives Members with prejudicial interests the same rights as members of the public to address Council meetings).

**b) Compliance**

The Council has a duty to ensure that it acts in accordance with the law and various regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is possible, all staff understand their responsibilities both to the Council and the public. One key

document is the *Financial Regulations* which is available to staff and the public on the Council's web site.

Other documentation includes corporate policies on a range of topics such as Complaints and Freedom of Information Publication Scheme. The Council keeps relevant staff aware of changes in policy, or new documentation following new legislation, by means of memos. In addition the Council's Proper Officer is encouraged to attend training courses organised by the Council's professional body, the Sussex Association of Local Councils, the Society of Local Council Clerks or the Institute of Local Council Management.

Formal risk assessments are undertaken annually – normally in March. These are presented to the Policy Resources & General Purposes Committee and form an integral part of the Council's risk management process.

**c) Economic, effective and efficient uses of resources**

Economic, effective and efficient use of resources is subject to review through the work of both Internal and External Audit and through informal monitoring of sector 'best practice'.

**d) Financial management**

Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Responsible Financial Officer (RFO). The systems of internal financial control provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. Internal financial control is based on a framework of management information, financial procedure rules and administrative procedures.

In financial matters the Council is guided primarily by its *Financial Regulations and Governance and Accountability in Local Council in England and Wales: a Practitioners' Guide* (2003) – published jointly by the National Association of Local Councils and the Society of Local Council Clerks.

The Council's principal financial control is that payments drawn on its bank/deposit accounts must be authorised by any two of (normally) five Members.

Regulation 6 of the Accounts and Audit Regulations 2003 (amended 2006) imposes a duty on local councils to *maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices.*

The main purpose of the (independent) *Internal Auditor* is to review, regularly, whether the systems of financial and other control are effective – and to report to the Council the adequacy of systems of control.

There is no requirement for the internal auditor to be professionally qualified but such an individual should be able to demonstrate:

- understanding of basic accounting processes
- understanding of the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management
- awareness of risk management issues and
- understanding of accounting requirements of the legal framework and powers of local councils.

On 4 June 2007 the Council re-appointed Paula Fisher, former Clerk/RFO of Battle Town Council as its Internal Auditor for 2007-08. Her report to the Council dated 25 July 2007 gave no cause for concern.

The Council's External Auditors (currently Mazars), appointed by the Audit Commission, conduct an annual audit in accordance with guidance issued by the Commission and, on the basis of a review of the Council's Annual Return and supporting information, report on whether there are any matters that have come to their attention which give cause for concern that relevant legislation and regulatory requirements have not been met. For the year 2006-7 the External Auditor's Report gave no cause for concern other than an observation that *the Council must review the effectiveness of its system on internal audit as part of the wider annual review of the system on internal control.*

#### **4 Review of effectiveness**

Rye Town Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by:

- the work of the Internal Auditor
- the work of the Proper Officer/RFO
- the external auditors in their annual certificate and opinion
- guidance received from the Council's and Clerk's advisory/professional bodies

#### **5 Control issues identified during the year**

##### **(a) Financial Regulations**

The Council's *Financial Regulations* have not been reviewed since their adoption on 31 March 2003.

**Recommendation A That the Council obtains a copy of the latest NALC Model Financial Regulations and considers them for adoption.**

##### **(b) Internal auditor**

Although the Council has supplied the current Internal Auditor with copies of the relevant sections of *Governance and Accountability in Local Council in England and Wales: a Practitioners' Guide (2003)* - and discusses with the Auditor the arrangements for audit – this process (including what is expected of each party) is not set out in writing.

**Recommendation B That Terms of Reference be drawn up and an Action Plan be agreed between both parties annually.**

##### **(c) Scheduling of visits**

Currently the Internal Auditor attends the Council's office typically for 2-3 half days, within a 1-3 week period. There is therefore a risk that a material problem might not be detected for 11 months.

**Recommendation C That the Internal Auditor be asked to re-schedule her work so as to facilitate a visit to the Council's offices approximately half-way through a financial year – and that this be provided for within the Annual Action Plan.**

Richard Farhall MILCM  
Responsible Financial Officer  
11.3.08