

## RYE TOWN COUNCIL

### STATEMENT ON INTERNAL CONTROL (JUNE 2010)

#### 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). In early 2010, the National Association of Local Councils (NALC) published new *Model Standing Orders*. On 29 March 2010 the Council asked the Clerk to review the new *Standing Orders* and to recommend any modifications necessary to reflect local practice.

##### 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. Amended *Financial Regulations* were adopted 21 July 2008.

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 – or the Council directly - 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 of 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* (updated 2010) – 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 purposes of the (independent) *Internal Auditor* are to review, regularly, whether the systems of financial and other control are both adequate and effective- and, if appropriate, to make recommendations (incorporate within section 6).

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 8 June 2009 the Council appointed Angela Alexander, former Clerk/RFO of Camber Parish Council as its Internal Auditor for 2009-10. Her report to the Council dated 14.6.10 made a number of recommendations which appear in section 6 (*below*).

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 2008-09 the External Auditor's Report gave no cause for concern.

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

Rye Town Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal audit. 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 addressed since last review**

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

Adoption of the latest NALC Financial Regulations – as amended to suit the Council – on 21 July 2008.

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

The Council's new Internal Auditor, Angela Alexander has been loaned a hard copy of *Governance and Accountability in Local Council in England and Wales: a Practitioners' Guide* (2008) – and has been emailed the electronic (2010) version.

##### **(c) Internal auditor terms of reference**

Provided to the Internal Auditor on 17.6.09 – to be considered for re-adoption 21.6.10.

##### **(d) Audit Plan 2009-10**

Agreed with the Internal Auditor 17.6.09. 2010-11 Plan agreed and to be considered for adoption on 21.6.10.

#### **6 Control issues outstanding/identified since last review**

##### **A GENERAL**

##### **(i) Frequency of Internal Audit visits**

No mid-year visit was undertaken October-November 2009. This was because the Heritage Centre bookkeeping was in the process of being transferred from the Council's accountants to a newly-trained Heritage Centre member of staff and the Internal Auditor had been contracted by the Rother Local Strategic Partnership to support the production of Parish Local Action Plans until 31.3.10. The mid-year visit needs to take place in 2010-11, regardless of the circumstances prevailing.

##### **(ii) Standing Orders**

Review - and consider for adoption – NALC's new *Model Standing Orders*.

##### **(iii) Bank reconciliations (Internal Audit report 14.6.10)**

Appoint a Member to provide an additional level of checking.

##### **(iv) Cheque authorisation (Internal Audit report 14.6.10)**

Remind the authorised signatories to always initial cheque stubs.

- (v) **Main assets** (*Internal Audit report 14.6.10*)  
Arrange property and community assets re-valuations.
- (vi) **Fidelity guarantee** (*Internal Audit report 14.6.10*)  
Check with SALC whether there is a recognised formula for calculating the level of cover.
- (vii) **Lifting and handling**  
Arrange instruction for existing and new members of staff.

## **B HERITAGE CENTRE**

- (i) **Bankings**  
Review the frequency.
- (ii) **Payments**  
Introduce a numbering system to minimise the risk of invoices received being paid twice.
- (iii) **Security of the Old Pennies change machine**  
Relocate in order to ensure that it is easier for staff to monitor.
- (iv) **Old Pier Machines: insurance**  
Check responsibility for public/staff liability.

This review date: 14.6.10

## RYE TOWN COUNCIL

### Summary of main day-to-day financial controls

*To be read in conjunction with the Council's Financial Regulations*

#### 1 Generally

**a)** All cheques or other lawful payment methods must be signed/authorised by at least two Members of Council. By signing a cheque or authorising a payment, those Members are confirming that they are satisfied with the payment proposed and that the payment sum corresponds with the demand for payment (typically an invoice). Cheque stubs are initialed by those Members signing the cheque to confirm that both sums match.

**b)** Proposed payments exceeding the approved budget shall be approved by Council or (if less than £250) by the Policy, Resources & General Purposes Committee (PRGP).

**c)** The documents/reports following are normally presented to meetings of the Policy, Resources & General Purpose Committee:

- (i)** Schedule of authorised payments and income (TH & HC)
- (ii)** Budget Monitor (TH & HC)
- (iii)** Petty cash statement (HC)
- (iv)** Accounts Balances statement (TH & HC)
- (v)** Earmarked Reserves statement (TH & HC)

**d)** The urgent/emergency expenditure limit is set out at section 3.4 within the Council's *Financial Regulations*.

#### 2 Rye Town Hall (TH)

*Note* No petty cash account is maintained. Very few cash transactions.

**a)** Cash and cheques are banked at least weekly

**b)** Small amounts of cash, cheques and postage stamps are kept in a secure facility to which only the Clerk and Assistant Town Clerk have access. (A more secure facility is available for larger amounts of cash.)

**c)** The current account is reconciled monthly by the Assistant Town Clerk and checked by the Clerk and the last reconciliation available is checked by the Committee Chairman at meetings of the Policy, Resources & General Purposes Committee.

**d)** Deliveries are checked against the delivery note and original order by the Assistant Town Clerk and any discrepancies are noted. Delivery notes are checked against invoices by the Town Clerk.

#### 3 Rye Heritage Centre (HC)

*Note* Since 1 April 2009, the Heritage Centre has been managed, on behalf of Rye Town Council (the Client), by Peter Cosstick (the Contractor). The Management Agreement dated 29 March 2010 includes a number of financial safeguards.

**a)** The Contractor is not permitted to commit any expenditure – nor enter into any

contracts or undertakings on behalf of the Client - without the consent of the Client.

**b)** The Contractor is required to provide the Client with monthly financial reports and to have regard for, and comply with, the Client's systems of financial control and financial procedures.

**c)** In order to limit bank charges – and unless the cash held in the safe is likely to reach (or exceed) the 'cash on premises' insured limit: cash and cheques are banked every 3 days outside of the main visitor season (1 Oct- up to Easter) and every other day (excluding Sat and Sun) within the peak visitor season (Easter-30 Sep). Bankings are undertaken by different staff at variable times. Any unbanked cash or cheques are kept in a secure facility overnight.

**d)** Takings are 'cashed up' and reconciled against till readings and PDQ (debit/credit card) reports daily. In the event of discrepancy, assistance is sought from other members of staff on duty. If the cause of the discrepancy cannot be identified, details are recorded on the day sheet (summary of takings) for the HC Manager to investigate the day following.

**e)** Credit/Debit card statements are reconciled monthly and takings generally are, additionally, reconciled monthly.

**f)** The till floats (including the spare) are kept in a secure facility overnight and the spare float is checked weekly.

**g)** Petty cash is kept within a secured facility – with only two individuals (the HC Manager and Senior Advisor) having access to the contents of the petty cash box.

**h)** There is a minimal holding of postage stamps for administrative purposes. They are kept in a secured facility.

**i)** A 'working stock' of postage stamps for retail use is kept behind the counter. The remaining stock is kept in a secure facility. The sale of stamps is reconciled monthly.

**j)** The current account is reconciled monthly by the Sales/Counter Clerk responsible for bookkeeping and checked by the Clerk and the last reconciliation available is checked by the Committee Chairman at meetings of the Policy, Resources & General Purposes Committee.

**k)** Deliveries are checked against the delivery note by an available member of staff and any discrepancies are noted. Delivery notes are checked against the original order by the HC Manager – and against the corresponding invoice – before being recommended for payment.

**i)** The Old Pier Amusement machines are emptied daily. 50% is put through the till and 50% is recorded and placed in a secure facility (before being passed to the owner of the machines) – and is reconciled weekly

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Last reviewed and updated by the Town Clerk: 8.6.10  
Re-Issued (8.6.10) to: The Assistant Town Clerk  
Rye Heritage Centre Manager