

KEDINGTON PARISH COUNCIL

YEAR END 31 MARCH 2020

**REVIEW AND AGREE EFFECTIVENESS OF INTERNAL CONTROL/MANAGEMENT
OF RISK AND INTERNAL AUDIT IN ACCORDANCE WITH
THE ACCOUNTS AND AUDIT REGULATIONS 2015**

Legislative Background

The Accounts and Audit Regulations 2015. These regulations (Statutory Instrument 2015 No. 234, Local Government, England and Wales) apply to all relevant authorities and were laid before Parliament on 17 February 2015 and brought into force on 01 April 2015. The Secretary of State made the Regulations in exercise of the powers conferred by sections 32, 43(2) and 46 of the Local Audit and Accountability Act 2014 (a). Accounts and Audit (Amendment) Regulations 2016 SI 2016/0065 were approved by Tynwald on 15 March 2016 and came into operation on 1 April 2016.

Provisions

Part 1 of the regulations – Introductory

- 1. *Citation, commencement and application***
- 2. *Interpretation***

Part 2 of the regulations –Internal Control:

3. *Responsibility for internal control*

A relevant authority must ensure that it has a sound system of internal control which-

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

4. *Accounting records and control systems*

(1) Subject to paragraphs (3) and (4), and, in so far as they are not in conflict with those paragraphs, to any instructions given by a relevant authority to its responsible financial officer, that officer must determine, on behalf of the authority-

- (a) the form of its accounting records and supporting records; and
- (b) its financial control systems.

(2) The Responsible Financial Officer for a relevant authority must ensure on behalf of that authority that the financial control systems determined by that officer in accordance with subparagraph (1)(b) are observed and that the accounting records of the authority are kept up to date.

(3) The accounting records must, in particular, contain-

- (a) entries from day to day of all sums of money received and expended by the authority and the matters to which its income and expenditure or receipts and payments relate; and
- (b) a record of the assets and liabilities of the authority.

- (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.

5. Internal audit

- (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.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit-
- (a) make available such documents and records; and
 - (b) supply such information and explanations; as are considered necessary by those conducting the internal audit.
- (3) In this regulation “documents and records” includes information recorded in an electronic form.

6. Review of internal control system

- (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;
- (2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must-
- (a) consider the findings of the review required by paragraph (1)(a)—
 - (i) by a committee; or
 - (ii) by members of the authority meeting as a whole; and
 - (b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of
 - (i) a committee; or
 - (ii) members of the authority meeting as a whole.
- (3) If the relevant authority referred to in paragraph (1) is a Category 2 authority, following the review it must-
- (a) consider the findings of the review by members of the authority meeting as a whole; and
 - (b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of members of the authority meeting as a whole.
- (4) The annual governance statement, referred to in paragraph (1)(b) must be—
- (a) approved in advance of the relevant authority approving the statement of accounts in accordance with regulations 9(2)(b) or 12(2)(b) (as the case may be); and
 - (b) prepared in accordance with proper practices in relation to accounts(a).

Part 4 of the regulations - Published Accounts & Audit – Category 2 Authorities

Statement of accounts for Category 2 authorities

11.— (1) A category 2 authority must ensure that the statement of accounts required by section 3(3) of the Act is prepared in accordance with these Regulations.

(2) Subject to paragraph (3), a statement of accounts prepared by a Category 2 authority under section 3(3) of the Act must take the form of—

- (a) an income and expenditure account; and
- (b) a statement of balances,

prepared in accordance with, and in the form specified in any annual return required by, proper practices in relation to accounts.

(3) Where, in relation to a Category 2 authority and a financial year, the gross income or expenditure (whichever is higher) is not more than £200,000 for that financial year or for either of the two immediately preceding financial years, the statement of accounts may, instead of complying with paragraph (2), take the form of a record of receipts and payments of the authority in relation to that financial year.

(4) A record prepared in accordance with paragraph (3) must be prepared in accordance with, and in the form specified in any annual return required by, proper practices in relation to accounts.

Internal control:

Kedington Parish Council as a whole is responsible for ensuring its financial management is adequate and effective and that a sound system of internal control is in place which facilitates the effective exercise of the Parish Council’s functions.

Kedington Parish Council maintains an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.

Parish Council Procedures <i>Safe and Efficient Arrangements to Safeguard Public Money</i>	Review systems of internal control
<p>Part 2 The Accounts and Audit Regulations 2015 Internal Control</p> <p>Part 4 of the regulations - Published Accounts & Audit – Category 2 Authorities</p>	<p>Yearly review to agree effectiveness of Internal Control/Management of Risk and Internal Audit in accordance with current Accounts and Audit Regulations is carried out before 31 March in each financial year and agreed by Finance Committee and full Parish Council by resolution.</p>

<p style="text-align: center;">Parish Council Procedures</p> <p style="text-align: center;"><i>Safe and Efficient Arrangements to Safeguard Public Money</i></p>	<p style="text-align: center;">Review systems of internal control</p>
<p>Kedington Parish Council has a separate Finance Committee, which is appointed annually to deal with the Council's financial matters. The boundary within which the Finance Committee must act is laid down in Local Standing Orders (Standing Order F1 (1 – 7) (7. 1 – 16)) and Financial Regulations</p>	<p>Internal control is provided using Local Standing Orders and Financial Regulations which are reviewed yearly or when new legislation requires.</p> <p>Finance Committee report to main Parish Council once a month. Parish Council can ratify or overturn Finance Committee decisions.</p> <p>Finance Committee can only agree orders / services up to the value of £500. Anything over £500 needs ratification by full Parish Council.</p> <p>Bank account signatories are reviewed regularly and any changes or new mandates are approved by Finance Committee / full Parish Council.</p>
<p>Kedington Parish Council has an appointed Responsible Financial Officer. (Standing Order F1 (7) (5))</p>	<p>Responsible Financial Officer carries out duties as directed by the Finance Committee or those ratified by full Parish Council, evidence of which is shown in minutes.</p> <p>Responsible Financial Officer is a cheque signatory by virtue that the Banks will not impart information unless the Clerk/RFO is a signatory. RFO does not sign cheques.</p>
<p>Payments, Orders and Contracts</p>	<p>Payment of accounts is done in accordance with Standing Orders. (F1 (7) (5.1 – 5.7))</p> <p>Petty Cash is exercised in accordance with Standing Orders. (F1 (7) (8.1 – 8.4))</p> <p>Orders are raised in accordance with Standing Orders. (F1 (7) (9.1 – 9.2))</p> <p>Contracts (Tenders) are raised in accordance with Standing Orders (F1 (7) (10.1 – 10.7)). Procurement of large contracts is carried out in accordance with Government Legislation.</p>

<p style="text-align: center;">Parish Council Procedures</p> <p style="text-align: center;"><i>Safe and Efficient Arrangements to Safeguard Public Money</i></p>	<p style="text-align: center;">Review systems of internal control</p>
<p>Kedington Parish Council has an appointed Accountant (reviewed yearly), who maintains accurate monthly financial records, including income, expenditure, bank reconciliations, petty cash, budgets, assets, Liabilities and VAT. (Standing Order F1 (7) (15.1 – 15.2)).</p> <p>A division of duties between Accountant / Responsible Financial Officer and Finance Committee members is clearly shown.</p>	<p>Responsible Financial Officer presents up to date budget sheets supplied by Accountant at monthly meetings. Invoices have accompanying documentation, which shows a clear audit trail and are initialled by Finance Committee members as are cheque stubs. Two named signatories must sign cheques and signatories are alternated between meetings; signatories also check and initial bank statements. Signatories are reviewed yearly when Finance Committee appointed.</p>
<p>Banking procedures</p>	<p>Repeal of S150 (5) of the Local Government Act 1972 was approved by Parliament in 2014 and a legislative reform order (LRO) was made for Councils to use Internet Banking.</p> <p>Kedington Parish Council has agreed that it will use “internet” banking for payment of salaries only. Invoices will continue to be paid by cheque with two signatories. When paying salaries electronically a member of the Finance Committee will oversee the transactions made by the Responsible Financial Officer.</p>
<p>Kedington Parish Council Accountant deals with salaries, PAYE and VAT. Accountant prepares payment to Inland Revenue quarterly and VAT is reclaimed every six months.</p>	<p>Salary payments agree with Council approved amounts. Any pay rises are approved by full Parish Council. Responsible Financial Officer raises cheque for PAYE at Finance Committee meetings and ensures payment to H M Revenue and Customs is made by due date. Parish Council Accountant deals with VAT reclaim electronically. Pension obligations are met in accordance with Government Legislation.</p>
<p>Insurance - Kedington Parish Council has insurance cover obtained through a credited broker, which specialises in Parish Council Insurance.</p>	<p>Insurance Broker is specialist in Parish Council insurance and provides up to date information on the needs of the Parish Council and changes in the law (if any). Fidelity guarantee is reviewed yearly and clearly minuted.</p>

<p style="text-align: center;">Parish Council Procedures</p> <p style="text-align: center;"><i>Safe and Efficient Arrangements to Safeguard Public Money</i></p>	<p style="text-align: center;">Review systems of internal control</p>
<p>Kedington Parish Council has separate meeting of Finance Committee to set Annual Budget / Precept. (Standing Order F1 (7) (3.1 – 3.6))</p>	<p>Annual Budget / Precept is ratified by full Parish Council before being sent to District Council. Councillors are required to declare that they are not in arrears with Council Tax before meeting commences (s106, Local Government Finance Act 1992). Risk Assessment is completed for setting budget/precept. Precept amount is clearly minuted in Parish Council minutes.</p>
<p>Standing Orders are reviewed yearly or when new legislation requires. Review of Standing Orders and any changes are clearly minuted. (Standing Order F1 (7) (16.1))</p>	<p>No amendments can be made to Financial Standing Orders by Finance Committee. These have to be made through full Parish Council. Kedington Parish Council is currently undertaking a review of Standing Orders in line with new NALC Model Standing Orders.</p> <p>Kedington Parish Council acts in accordance with Governance and Accountability for Local Councils – A Practitioners’ Guide (England) and JEPG Governance and Accountability for Smaller Authorities in England – March 2019.</p>
<p>Asset Register</p>	<p>Asset Register is regularly updated when purchases are made. Asset Register is reviewed and agreed yearly and this is clearly noted in the minutes.</p> <p>Street Furniture Condition Report is presented annually to Finance Committee and any maintenance work necessary is agreed and carried out.</p>
<p>Risk Assessments – Reviewed and agreed yearly by full Parish Council.</p>	<p>Kedington Parish Council undertakes Financial Risk Assessment procedures (in addition to other Risk Assessments) to ensure it delivers high quality public services to Parishioners and acts within the Law.</p> <p>Play equipment reports are received monthly from Local Authority and regularly maintained. Other equipment is also regularly maintained and faults/defects are repaired as soon as possible.</p>

<p align="center">Parish Council Procedures</p> <p align="center"><i>Safe and Efficient Arrangements to Safeguard Public Money</i></p>	<p align="center">Review systems of internal control</p>
<p>Training</p>	<p>Kedington Parish Council has a training budget, which ensures Parish Clerk/RFO, Chairman and Councillors have appropriate training and knowledge to carry out their roles effectively.</p>

Internal audit:

Internal audit is a key component of the system of internal control and is undertaken by an outside body appointed by Kedington Parish Council. The Internal Auditor will review whether the systems of financial control and controls over the activities of the council are adequate, effective and in line with current regulations. Managing the risk of fraud and corruption is the responsibility of the Parish Council. The internal audit review should cover:

- Review of independence
- Review of competence
- Review of relationships with clerk and councillors
- Review of audit planning and reporting
- Review of audit scope

From 31 March 2011, the requirement to specifically minute an annual review of the effectiveness of internal audit was removed. However, the review should still be undertaken as part of the internal controls.

<p align="center">Parish Council Procedures</p>	<p align="center">Effectiveness of Internal Audit</p>
<p>Kedington Parish Council's appointed Internal Auditor is an independent, fully qualified Auditor.</p>	<p>Independent Auditor carries out the Internal Audit so is unbiased and objective to the function of the Parish Council. Internal Auditor ensures Kedington Parish Council works within the regulated framework and is appointed on a yearly basis by approval of Parish Council.</p>
<p>Kedington Parish Council's Accountant and Responsible Financial Officer liase before end of Financial Year to ensure satisfactory timetable is in place in readiness for both Internal and External Audit.</p>	<p>Timetable and planning ensures all paperwork is ready for the Internal Auditor (and External Auditors) within agreed timescale.</p> <p>New External Auditors (PKF Littlejohn) appointed in 2017 for a period of five years.</p>

Parish Council Procedures	Effectiveness of Internal Audit
Accounts for Internal Audit	Internal Auditor reviews un-audited end of year account sheets together with all relevant paperwork, i.e. bank statements, bank reconciliation, income and expenditure accounts, cheque books, invoices, vat and PAYE returns, petty cash sheets, insurance documents, Assets Register. Internal Auditor can compare these with accounts and standing orders to ensure Kedington Parish Council is showing correct audit trail and complying with financial regulations.
Parish Council Clerk/RFO will ensure Review of the Effectiveness of Internal Audit is carried out and recorded before 31 March each year.	Full Parish Council approves this document and Internal Audit ensures this condition is complied with.
Kedington Parish Council has a separate Finance Committee, which is appointed annually to deal with the Council's financial matters. The boundary within which the Finance Committee must act is laid down in local Standing Orders.	The Internal Auditor is given a copy of the local Standing Orders, to enable accounts to be effectively scrutinised.
Proper book-keeping	Internal Auditor can see visual evidence that proper book-keeping is carried out within legal framework. Internal Auditor can verify that cheques are signed by two Councillors and that sheets showing payments due are also initialled by the two Councillors signing the cheques along with initialling the appropriate cheque stub. Bank statements are also initialled by Councillors. Accountant maintains Income and Expenditure account and ensures this is up to date and regularly balanced.
VAT on payments	VAT on payments is identified by RFO and recorded by Accountant. VAT is reclaimed electronically every six months.
s137 expenditure	s137 expenditure is recorded separately on budget sheets and RFO keeps this within statutory limits.

Parish Council Procedures	Effectiveness of Internal Audit
Financial Regulations Standing Orders Payment Controls	<p>Kedington Parish Council has an appointed Responsible Financial Officer. Internal Auditor can see minuted evidence that Standing Orders/ Financial Regulations and Internal Financial Controls are reviewed yearly and documented in minutes. A copy of Standing Orders and Financial Regulations are available to Internal Auditor. Internal Auditor can check that any recommendations from the previous year's Internal Audit have been reported to full Parish Council, carried out and complied with.</p>
Budgetary controls	<p>Internal Auditor can see evidence from Budget Setting Meeting and has sight of notes from the meeting and budget sheet for appropriate financial year. Internal Control measures show that budget is monitored monthly.</p>
Income controls Bank reconciliation	<p>Evidence shown in minutes that precept and grant income is properly recorded and minuted. Parish Council Accountant reconciles bank statements from deposit and current accounts on a monthly basis and bank statements are initialled by members signing cheques after inspecting monthly finance reports. Responsible Financial Officer also checks bank statements on a monthly basis.</p>
Payroll controls	<p>Internal Auditor has evidence that correct payments are being made for wages and salaries and this is well documented with copies of all relevant PAYE paperwork. Salaries are approved and recorded on budget sheets and attached to minutes of Finance Committee meetings as annexes. All members of Parish Council receive full minutes and annexes of Finance Committee meetings. A complete record is shown of PAYE payments made to H M Revenue and Customs.</p>

Parish Council Procedures	Effectiveness of Internal Audit
Payroll controls (continued)	<p>No increases in salaries are made without approval by full Parish Council. Full Parish Council normally agrees any increase to Parish Clerk's salary and the Clerk leaves the room while the matter is discussed.</p> <p>All employees (Clerk, Crossing Supervisor and Village Cleaner/Handyman) have yearly appraisals.</p>
Asset Register (reviewed annually and approved by full Parish Council).	Internal Auditor can inspect Asset Register annually.
Insurance (reviewed annually)	<p>Internal Auditor can inspect policy document and ensure appropriate cover and fidelity guarantee is in place and reviewed in accordance with financial regulations.</p> <p>Fidelity Guarantee is reviewed annually by Finance Committee and reported to full Parish Council. Fidelity Insurance covers Precept and Reserves.</p> <p>RFO ensures new items of equipment are reported to Insurance Company to maintain adequate cover.</p>
Clerk/Responsible Financial Officer will present Internal Auditor's Report to Finance Committee and full Parish Council. Any issues arising will be reported and measures put in place to rectify them, agreed by full Parish Council.	Internal Auditor presents report and recommendations to address any issues arising.

External Audit:

From 2017, External Auditor appointments passed to a new company, **Public Sector Audit Appointments Limited, who will also be responsible for setting fees.** This Company was set up on behalf of the Department for Communities and Local Government by the National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA). The National Audit Office will be responsible for issuing the Code of Audit Practice. External Auditors will undertake a review of the Annual Return which combines the accounting statements and the annual governance statement.

External Auditors meet their responsibilities by:

- Reviewing compliance with the requirements for the preparations of the accounts.
- Carrying out high-level review of financial and other information provided to them.
- Reviewing such additional information and explanation as is necessary to provide sufficient evidence that the audited body has maintained an adequate system of internal control and internal audit throughout the relevant financial year.
- Giving a limited review assurance opinion based on their findings in the Annual Return.
- Issue audit opinion – qualified or unqualified based on matters coming to their attention.
- Issue Public Interest Reports – where serious matters of non-compliance need to be brought to public attention.

External Audit	Parish Council Procedures
<p>External Auditors send Annual Governance and Accountability Return (AGARs) and guidance notes for completion. External Auditors provide notices for the appointment of date for the exercise of elector’s rights (for relevant year).</p>	<p>Kedington Parish Council undertakes to approve Section 1 and Section 2 of the Annual Governance and Accountability Return (AGARs) in May each year. After review and approval Section 1 and Section 2 are signed at the Parish Council Meeting by the Chairman of the Parish Council and the Responsible Financial Office. The AGAR is then posted to the External Auditor by required date each year. Approval of Annual Governance and Accountability Return (AGARs) is recorded in the minutes of the meeting where it is approved.</p> <p>Notices for the appointment of date for the exercise of elector’s rights are posted on all village noticeboards within timescale and on Parish Council Website.</p>
<p>When audit is complete Annual Governance and Accountability Return (AGARs) is sent back to Parish Council; this and any accompanying notes will be appended to the minutes of the meeting at which it is discussed as an agenda item.</p> <p>Notice of Conclusion of Audit is sent to Parish Council with Annual Governance and Accountability Return (AGARs).</p>	<p>Annual Governance and Accountability Return (AGARs) is posted on Parish Council Website when returned from External Auditor.</p> <p>Any issues arising from the External Audit are discussed at full Parish Council and procedures put in place to rectify any issues.</p> <p>Notice of Conclusion of Audit are posted on all village noticeboards within timescale and Parish Council Website.</p>