

## Reserves and Internal Control Policies

The Suffolk Association of Local Councils has advised that Parish Councils should, as a matter of good practice, adopt both:

- a) a Financial Reserves, and
- b) an Internal Control policy.

The Accounts & Audit (England) Regulations 2015 aims to strengthen governance and accountability through requirements related to internal control and internal audit.

Whilst the Parish Council has reviewed the effectiveness of the internal audit (independence, competence, proportionate and scope), it has a requirement levied on it to ensure that its financial management is adequate and effective and that it has a sound system of internal control: -

'The regulations require active participation by members in providing positive assurance to the electors of their stewardship of public money. The framework of accountability is risk-based i.e. level of control and management must be appropriate to the risk involved. The Council must determine the most appropriate method of internal control.... care should be taken to ensure that internal control tests are proportionate and relevant and that they are neither seen as, nor intended as, undue interference in the RFO's day to day management of financial affairs.'

The draft policies are attached as Appendices A & B respectively.

The internal control report will be completed as soon as lockdown has lifted and it is possible to meet the relevant councillor to review the documents.

**Recommendation:**

**The Financial Reserves, and Internal Control policies, attached respectively as Appendices A and B, be adopted.**

## Wickhambrook Parish Council

### RESERVES POLICY

#### 1. Purpose

1.1 Wickhambrook Parish Council (WPC) 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.

1.2 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.

1.3 Proper Practices (March 2020 – to be applied to Annual Governance and Accountability Returns covering the period 1 April 2020 to 31 March 2021) - requires all authorities to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all Earmarked Reserves.

1.4 Furthermore, it is stated that whilst authorities should have sufficient Reserves (General and Earmarked) to finance both its day-to-day operations and future plans, it is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.

#### 2. Types of reserves

2.1 Reserves can be categorised as general, earmarked or restricted.

#### 3. General Reserves

3.1 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.

3.2 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.

3.3 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.

3.4 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.

3.5 Even at times when extreme pressure is put on the council's finances the council it must keep a minimum balance sufficient to pay one month's worth of contractual obligations to staff and contractors in general reserves at all times.

3.6 Council should also be aware of the guidance as given in Proper Practices (March 2020 – to be applied to Annual Governance and Accountability Returns covering the period 1 April 2020 to 31 March 2021) which states that "The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure (NRE). NRE (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves. The reason for the wide range (3 to 12 months) is to cater for the large

variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve. In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

#### **4. Earmarked Reserves**

4.1 Earmarked reserves can be used to cover items such as:

- Renewals – to enable services to plan and finance an effective programme of vehicle and equipment 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.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities and may include an insurance reserve to enable the Council to meet the excesses of claims not covered by insurance.
- Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.
- Any decision to set up a reserve must be given by the Council.
- Expenditure from reserves can only be authorised by the Council.

4.2 Reserves should not be held to fund ongoing 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.

4.3 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.

4.4 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.

#### **5. Restricted Reserves**

5.1 Wickhambrook Parish Council does not currently hold any restricted reserves. One example of a restricted reserve is Community Infrastructure Levy (CIL), which West Suffolk has not yet adopted.

#### **6. Policy In Practice**

6.1 The Council will hold Reserves for these three main purposes: -

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves.
- A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.

## **7. Procedure**

- 7.1 Any decision to set up a reserve must be made by the Council.
- 7.2. Expenditure from reserves can only be authorized by the Council.
- 7.3. The reserves will be reviewed by the Council as part of the annual budgeting process.
- 7.4. The Responsible Financial Officer will maintain a detailed schedule of all reserves which will form part of the accounts package.

Model Internal Control Statement and Report to Council. This document should be tailored to meet the needs of your Council particularly where [] are shown.

## **Wickhambrook Parish Council**

### **INTERNAL CONTROL STATEMENT FOR YEAR ENDING 31 MARCH 2021**

#### **1. SCOPE OF RESPONSIBILITY**

Wickhambrook Parish 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.

The council is 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.

#### **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 on-going 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, effectively and economically.

#### **3. THE INTERNAL CONTROL ENVIRONMENT**

##### **The Council:**

The council reviews its obligations and objectives and approves budgets for the following year at its January meeting. The January meeting of the council approves the level of precept for the following financial year.

The Clerk reports to the Council progress against objectives and position against the adopted budget in accordance with the Council's financial regulations. A Councillor is appointed with a portfolio to review, financial systems and procedures, budgetary control, bank reconciliation checks and carry out regular reviews of financial matters. A bank reconciliation is reported to the council at least bi-monthly and is recorded in the minutes.

The full council meets seven times each year and monitors progress against its aims and objectives at each meeting by receiving relevant reports from the parish clerk.

The council carries out regular reviews of its internal controls, systems and procedures. See attached Report.

##### **Clerk to the Council/Responsible Finance Officer:**

The Council has appointed a Clerk to the Council who acts as the Council's advisor and administrator. The Clerk is the Council's Responsible Financial Officer and is responsible for administering the Council's finances. The Clerk is responsible for advising on the day to day compliance with laws and regulations that the Council is subject to and for managing risks. The Clerk also provides advice to help the Council ensure that its procedures, control systems and policies are adhered to.

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**Payments:**

All payments are reported to the council for approval. Two members of the council must:

- authorise each BACS payment made through internet banking, and/or
- sign every cheque for payment.

For each cheque signed, the signatories should consider each payment against the relevant invoice, sign the invoice and initial the cheque counterfoil. All authorised cheque signatories are members of the Council. Where delegation permits, as per s.101(1)(a) of the Local Government Act of 1972 and the Council's Financial Regulations, a report will be provided to the next full Council.

The parish council, in setting up its internet banking arrangements, has followed the advice provided by Suffolk Association of Local Councils (SALC).

**Income:**

All income is received and banked in the council's name in a timely manner and reported to the council.

**Risk Assessments/Risk Management:**

The council reviews its risk assessment annually in April, and regularly reviews its systems and controls.

**Internal Audit:**

The council appoints an independent and competent internal auditor who reports to the council on an annual basis on the adequacy of it's:

- Records
- Procedures
- Systems
- Internal control
- Regulations
- Risk management

**External Audit:**

The council's external auditors, submit an annual certificate of audit which is presented to the Council.

**4. REVIEW OF EFFECTIVENESS**

The council has responsibility for conducting an annual review of the effectiveness of the system of internal control, which should include a review of the effectiveness of internal audit. The results of that review must be considered by the Council, which should also approve the Statement of Internal Control.

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Chairman

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RFO/Clerk

Approved and adopted by Wickhambrook Parish Council

Meeting date:

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## **Wickhambrook Parish Council**

### INTERNAL CONTROL REPORT

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As part of its internal control, Wickhambrook Parish Council has appointed a non-signatory Councillor to conduct a review of the system of internal control via the following tests on a quarterly basis with a written report of any findings to be submitted to the Council and minuted as received.

<b>CONTROL TEST</b>	<b>TEST DONE</b> Yes or No	<b>COMMENTS – check documents and initial</b>
Ensuring an up to date Register of Assets		
Regular maintenance arrangement for physical assets		
Annual review of risk and the adequacy of Insurance cover		
Annual review of financial risk		
Awareness of Standing Orders and Financial regulations		
Adoption of Financial and Standing Orders		
Regular reporting on performance by contractors		
Annual review of contracts (where appropriate)		

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Regular bank reconciliation, independently reviewed		
Regular scrutiny of financial records and proper arrangements for the approval of expenditure		
Recording in the minutes or appendices of the minutes the precise powers under which expenditure is being approved		
Payments supported by invoices, authorised and minuted		
Regular scrutiny of income records to ensure income is correctly received, recorded and banked		
Scrutiny to ensure precept recorded in the cashbook agrees to District Council notification		
Contracts of employment for staff Contract annually reviewed Updating records to record changes in relevant legislation PAYE/NIC properly operated by the Council as an employer		
VAT correctly accounted for VAT payments identified, recorded and reclaimed in the cashbook		
Regular financial reporting to Parish Council		
Regular budget monitoring statements as reported to Parish Council		
Compliance with DCLG Guide <i>Open &amp; Accountable Local Government 2014, Part 4:</i> Officer Decision Reports		



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Compliance with Local Transparency Code Of 2015: Items of expenditure incurred over £500		
Verifying that the Council is compliant with the General Data Protection Regulation requirements  Are the following in place: <ul style="list-style-type: none"> <li>• Audit / Impact Assessment</li> <li>• Privacy Notices</li> <li>• Procedures for dealing with Subject Access Requests</li> <li>• Procedure for dealing with Data breaches</li> <li>• Data Retention &amp; Disposal Policies</li> </ul>		
Minutes properly numbered and paginated with a master copy kept in for safekeeping		
Procedures in place for recording and monitoring Members' Interests and Gifts of Hospitality		
Adoption of Codes of Conduct for Members		
Declaration of Acceptance of Office		

Date of review of system of Internal Controls.....

Review of system of Internal Controls carried out by:

Name..... Signature.....

Report submitted to Council (date).....

(minute reference) .....

Next review of system of Internal Controls due.....

Additional comments by reviewer: