

## The Legislation

1. Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the Audit Commission Act 1998<sup>i</sup> and the Accounts and Audit Regulations issued from time to time under the Act.
2. The requirement for local councils to prepare accounts annually and to subject them to external audit comes from the Audit Commission Act 1998 (the Act). The Act describes the rights of taxpayers and other interested parties in relation to those accounts.

The Act also provides that the Secretary of State may make regulations covering:

- how accounts should be kept;
  - the form of accounts and how and when they must be approved and published;
  - where and for how long taxpayers can view the accounts and the details behind them;
  - how taxpayers exercise their rights in relation to the accounts.
3. It is the council as a whole that is responsible in law for ensuring that its financial management is adequate and effective and that the council has a sound system of internal control which facilitates the effective exercise of their functions and which includes arrangements for the management of risk.
    - I. Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public 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.
    - II. In discharging this accountability, public bodies are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual governance statement.
  4. It is the responsibility of the whole council to ensure that proper arrangements are in place, but certain individuals may also have specific responsibilities. Most councils will have a Chief Executive Officer, often known as the Clerk, and a Responsible Finance Officer. The Clerk is responsible to the council for the corporate and overall strategic management of the authority and will also advise the council about any actual or potential breaches of the law or any maladministration, and ensure that procedures for recording and reporting key decisions are operating effectively. The Responsible Finance Officer is responsible for the proper administration of the audited bodies' financial affairs'. In some small councils, the role of Clerk and Responsible Finance Officer may be combined, **although a separation of these two key roles is desirable.**
  5. Under the regulations, all local councils must at least once a year conduct in accordance with proper practices a review of the effectiveness of their system of internal control and publicly report the outcome. It is the responsibility of the small audited body to prepare, publish and provide the auditor with the accounting statements prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that it has reviewed and maintained adequate systems of internal control and internal audit throughout the financial year. The Annual Governance Statement in Section 2 of the annual return provides the means for local councils to report to local taxpayers on their system of internal control.

6. **In carrying out an audit, auditors do not perform detailed tests of all transactions. Therefore the audit process should not be relied upon to disclose all unlawful transactions or events that may have occurred or might occur.** Auditors may evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the accounting statements. However, they do not provide assurance to small bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the council, but they cannot be expected to identify all weaknesses that may exist. **The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist.**

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<sup>i</sup> Practitioners should note Royal Assent was granted to the Local Audit and Accountability Act 2014 ('the new Act') in January 2014. This Act repeals much of the Audit Commission Act 1998 and provides for the closure of the Audit Commission on 31 March 2015. Subject to commencement orders and supporting regulations the new Act will eventually become the statutory accounting and audit framework for small bodies in England.

### **Prudhoe Town Council Financial Regulations - Recommendations**

1. The Clerk is the appointed Responsible Financial Officer, as detailed above this should be avoided. Furthermore, it is the Administrator who carries out the administration of all financial affairs. ***At the next opportunity the Administrator should be appointed as the RFO.***
2. ***A better referenced system of checking work and authorising payment should be established.*** Order numbers should be created automatically which would be referenced against invoices received and then these would be passed by the clerk to the RFO for payment. The Clerk is checking the order of work has been completed satisfactorily; the RFO will check the accuracy of the invoice and subsequently arrange for payment to be authorised.
3. The Financial Regulations need to be amended ***to raise the 'Petty Cash Float' to £1,000*** in line with TVLS funds held.
4. The council should ensure that **fees charged** in respect of Allotment Rent, Cemetery Fees and Rent (and any other fees expected to be charged) ***are agreed annually.*** It is also stated in our Financial Regulations that a review should be carried out each year. Even if a rise is not expected, the council should receive a report from the Clerk, which should be minuted to demonstrate proper governance. Or, the Financial Regulations could be altered to reflect the review systems in place for each.
5. It was AGREED at the March meeting that VAT be reclaimed quarterly rather than annually, this needs to be updated in the regulations.
6. The council should ensure an annual inspection of all assets with due regard to health and safety. RoSPA carry this out for Highfield Park, this leaves Kimberly Park, the Allotments and the Cemetery. These should be received by the council to ensure proper governance.
7. If the council wishes to move to electronic payments in order to save money and improve efficiency, the recommendation is as follows:
  - A Financial Committee or Sub-Committee is agreed to include authorised signatories and the RFO.

- Authorised signatories should be changed each year.
- All payments to be cross-referenced by the Clerk against orders of work and work completed.
- Once verified by the Clerk, the RFO would compile the necessary paperwork for a schedule of accounts to be paid; this would be presented to the Finance Committee or Sub-Committee (prior to the OM) to authorise payments, signing each invoice that will have already been signed by the Clerk.
- The RFO will set up the payment and 1 of the signatories will authorise on-line.
- Following approval of payments by the Finance Committee or Sub-Committee, and the payment thereof, the schedule would be presented to the Ordinary Meeting for endorsement.

NB. The Financial Regulations will need to stipulate that the Finance Committee or Sub-Committee is empowered to authorise payments.

A stamp with the following is suggested:

<b>Prudhoe Town Council</b>			
Date Received		Order No.	
Date Verified		Clerk signature	
Schedule Number		Cheque/Bacs Ref.	
Authorised Cllr		Authorised Cllr	
Date Processed		Amount	£
Processed by		Authorised by	
Endorsed at Meeting			