

# Revised Financial Regulations

Approved by the Section 151 Officer, for Consideration and  
Endorsement by Audit Committee on 17 September 2014

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## 1. Introduction

### 1.1. Scope and Objectives

- 1.1.1. The overriding objective of the Financial Regulations is to provide a clear and effective framework for managing the Council's financial affairs, as a contribution to high standards of governance, probity and public accountability. The Regulations set the foundations for all aspects of the Council's financial practices, directing and guiding elected Members and Officers in their financial duties, and they play a key role in securing a positive external audit opinion on the Council's accounts and arrangements to secure value for money.
- 1.1.2. The Financial Regulations are an integral part of the Council's Constitution, to establish the Council's financial governance arrangements. In case of any conflict, other parts of the Constitution take precedence over these Regulations, unless any legislative or regulatory requirement determines otherwise.
- 1.1.3. These Regulations are grouped into five main areas:  
**Section 2 - Financial Standards**  
**Section 3 - Financial Planning and Annual Budget Setting**  
**Section 4 – Management of Budgets**  
**Section 5 - Financial Records and Reporting**  
**Section 6 – Control of Resources**
- 1.1.4. The Regulations apply to every Member and Officer of the Authority and anyone acting on its behalf.
- 1.1.5. In particular, the Regulations identify the financial responsibilities of full Council, the Cabinet and Overview and Scrutiny, the Chief Executive, the Monitoring Officer, the Section 151 Officer and other Chief Officers.
- 1.1.6. The Regulations are subject to review at least annually, or sooner if circumstances warrant it.

## **2. Financial Standards**

### **2.1. General Principles**

- 2.1.1. The Financial Regulations mirror and support the expected standards of conduct set out in both the Council's Code of Conduct for Employees and the Members' Code of Conduct. All of these documents seek to ensure the highest standards of conduct and to protect the public, the Council and its elected Members and employees.
- 2.1.2. Section 10 of the Code of Conduct for Employees (Use of Financial Resources) sets out the overall expectations of employees in managing finances, the expected standard being expressed as *"Employees must strive to ensure that they use public funds entrusted to them in a responsible and lawful manner, and seek to secure value for money in the provision of their services."*
- 2.1.3. In relation to financial matters, Officers should also be aware of the following sections in the Code of Conduct for Employees:
- Corruption (section 2);
  - Standards of conduct (section 3);
  - Personal interests and personal relationships (section 6);
  - Gifts and hospitality (section 8);
  - The selection of developers, consultants or contractors (section 11); and
  - Separation of roles during tendering (section 12)
- 2.1.4. All elected Members and Officers have a duty to abide by the highest standards of probity, or "correctness", in dealing with financial issues.
- 2.1.5. It follows therefore that all elected Members and Officers have a general responsibility for taking reasonable action to provide for the security of the assets and any other resources under their control, and for ensuring that the use of these resources is legal, properly authorised, in accordance with relevant policies and other internal controls, and provides value for money.

### **2.2. Legislative Requirements**

- 2.2.1. The Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the Authority. The primary source (that informs the title) of this Officer's duties is Section 151 of the Local Government Act 1972, which requires the Authority to *"...make arrangements for the proper administration of their financial affairs and ... secure that one of their Officers has responsibility for the administration of those affairs."*
- 2.2.2. Section 114 of the Local Government Finance Act 1988 requires the Section 151 Officer to report to full Council and the external auditors if the Authority or one of its Officers:
- has made, or is about to make, a decision which involves incurring unlawful expenditure;
  - has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the Authority;
  - is about to make an unlawful entry in the Authority's accounts.

- 2.2.3. Section 114 of the 1988 Act also requires the Section 151 Officer to nominate properly qualified Member(s) of staff to deputise should he or she be unable to perform the duties under section 114 personally, and also requires the Authority to provide the Section 151 Officer with sufficient staff, accommodation and other resources to carry out the duties under section 114.
- 2.2.4. The Section 151 Officer has nominated the Financial Services Manager and the Internal Audit Manager to act as her deputies.
- 2.2.5. The Local Government Act 1999 places a 'Best Value' duty on the Authority to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness".
- 2.2.6. The Local Government Act 2000 and the more recent Localism Act 2011 determine the governance arrangements available to local authorities, (i.e. Mayor/Leader and Cabinet or Committee based systems), and establish where accountability lies for money and other resources. Under the Council's arrangements, the Cabinet is responsible for proposing the policy framework and budget to full Council and ultimate financial accountability lies with full Council.
- 2.2.7. The Local Government Finance Act 1992, the Local Government Act 2003, and the Localism Act 2011 set out various provisions and powers in the following areas, amongst others:
- Capital financing, borrowing and investment (treasury management);
  - Proper practices in accounting;
  - Budget calculations, monitoring and the maintenance of reserves;
  - Business Rates and Council Tax; and
  - Council housing finance (the Housing Revenue Account).
- 2.2.8. The Accounts and Audit (England) Regulations 2011 require the Authority to make arrangements to provide:
- adequate and effective financial management;
  - sound internal control and risk management;
  - an annual statement of accounts and associated annual governance statement; and
  - an adequate and effective internal audit in accordance with proper practices.
- 2.2.9. The 2011 Regulations also build on the Section 151 Officer's responsibilities by making him or her responsible for determining and maintaining the Authority's accounting records, form of accounts and accounting control systems, including various specific provisions such as the writing off of bad debts.
- 2.2.10. The Audit Commission Act 1998 set out the current arrangements for the appointment, by the Audit Commission, of the Authority's external auditors and the extent and nature of both the Audit Commission's and external auditors' work.

2.2.11. The Local Audit and Accountability Act 2014 has repealed the Audit Commission Act 1998, however, leading to the abolition of the Audit Commission. The 2014 Act makes new provisions for the appointment of external auditors (understood to be from 01 April 2017 at the earliest) and for the conduct and regulation of local authority audits.

2.2.12. The above sections outline the key legislative provisions that form the backbone of the local government financial framework, which is supported in turn by numerous other legislative and regulatory requirements.

### **2.3. Proper Practices**

2.3.1. Proper practices in accountancy<sup>1</sup> and treasury management<sup>2</sup>, as provided for in the Local Government Act 2003, are those issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.3.2. The Authority has adopted professional best practice standards regarding the role of the Chief Financial Officer<sup>3</sup> (or Section 151 Officer) as the benchmark for its organisation's arrangements. Accordingly, the Section 151 Officer:

- is a key Member of the Management Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure that immediate and longer term implications, opportunities and risks are fully considered, and align with the Authority's financial strategy; and
- must lead the promotion and delivery by the whole Authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

2.3.3. Proper practices in internal audit<sup>4</sup> as provided for in the Accounts and Audit (England) Regulations 2011 are those adopted and issued by CIPFA.

2.3.4. The Authority has also adopted professional best practice standards regarding the role of the Head of Internal Audit<sup>5</sup> (for the Council, this is the Internal Audit Manager).

2.3.5. Provisions relating to the proper practices and the role of the Internal Audit Manager are incorporated in the Internal Audit Charter, which is approved by the Council's Audit Committee.

### **2.4. Responsibilities for Financial Standards and the Financial Regulations**

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<sup>1</sup> 'Code of Practice on Local Authority Accounting in the United Kingdom', CIPFA

<sup>2</sup> 'Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes', CIPFA 2011

<sup>3</sup> 'Statement on the Role of the Chief Financial Officer in Local Government', CIPFA 2010

<sup>4</sup> 'Public Sector Internal Audit Standards' and 'Local Government Application Note' CIPFA.

<sup>5</sup> 'Role of the Head of Internal Audit in Public Sector Organisations' CIPFA

- 2.4.1. Establishing and maintaining the highest possible financial standards requires clarity in roles and responsibilities and the understanding and commitment of everyone involved. The Financial Regulations are the documentary cornerstone of the Council's financial management culture, setting out the fundamental rules, responsibilities and expectations.
- 2.4.2. In accordance with the Accounts and Audit (England) Regulations 2011, the Audit Committee may, on behalf of full Council, give any instructions regarding the Financial Regulations to the Section 151 Officer as may be appropriate.
- 2.4.3. In accordance with legislative requirements and proper practice standards, the Section 151 Officer is responsible for:
- reviewing, updating and promoting the Financial Regulations;
  - reporting any updates made to Financial Regulations to the Audit Committee for its subsequent consideration and endorsement;
  - developing, approving the adoption of, and promoting supporting instructions, procedures and guidance;
  - developing and actively promoting financial skills and competencies, assessing training needs at a corporate level and ensuring that appropriate training is made available to meet all identified needs; and
  - providing relevant, appropriate impartial advice that relevant parties must have regard to.
- 2.4.4. The Section 151 Officer may delegate certain responsibilities to other appropriate responsible Officers, subject to any legal or other regulatory constraints.
- 2.4.5. Every elected Member and Officer of the Authority and anyone acting on its behalf is required to abide by the Financial Regulations and act in accordance with the supporting instructions, guidance, systems and procedures. That is unless, as part of joint working, a partner organisation's Financial Regulations or equivalent have been formally adopted, following consideration by the Section 151 Officer.
- 2.4.6. Chief Officers are responsible for ensuring that all Officers in their services have access to, and are aware of the existence and content of, the Authority's Financial Regulations and other internal regulatory documents and that they comply with them.
- 2.4.7. Chief Officers should maintain clear, accessible records of where decision making has been delegated to members of their staff, including seconded staff, taking account of any appropriate legislative, other external or internal constraints, and the advice of the Section 151 Officer. In circumstances where decisions have been delegated or devolved to other responsible Officers, references in the regulations to the Chief Officer should be read as referring to other such responsible Officers.
- 2.4.8. Chief Officers are responsible for identifying training needs for the staff within their service areas, taking advice from the Section 151 Officer as appropriate.

## **2.5. Procedure for Handling Breaches of the Regulations**

- 2.5.1. Chief Officers are responsible for reporting to and consulting with the Section 151 Officer on any breach of Financial Regulations and for taking appropriate remedial action, including disciplinary action where necessary.

2.5.2. The Section 151 Officer is responsible for reporting, as appropriate, breaches of the Financial Regulations to the Council and/or to the Cabinet and/or Audit Committee Members.

### **3. Financial Planning and Annual Budget Setting**

#### **3.1. What this covers:**

- 3.1.1. In general terms, financial planning is the task of determining whether the Authority can afford its strategic goals and objectives, and what might need to change in order for them to be affordable, achievable and financially sustainable. It comprises the policies, practices and procedures that the Council will adopt to direct and manage its application of financial resources in the long, medium and short-term.
- 3.1.2. For the Council, the key financial planning elements are the Medium Term Financial Strategy (MTFS) and the Budget.
- 3.1.3. In essence, the Budget is the financial expression of the Authority's plans and policies.

#### **3.2. Why this is important:**

- 3.2.1. The Authority is a complex organisation responsible for delivering a wide variety of services, operating in an ever changing environment, but typically it cannot afford or deliver all that it might want to. It needs to forecast, prioritise and challenge its allocation of resources therefore, in view of its Corporate Plan and service business plans, to help ensure that any objectives set are achievable from a financial point of view.
- 3.2.2. Sound financial planning is fundamental to the Council being able to fulfil its legislative duties (§2.2) and satisfy required professional standards (§2.3), with regard to the efficient and effective management of public funds. Part 4, Section 3 of the Council's Constitution sets out other requirements and controls regarding budgetary matters. In overall terms, it is unlawful for an Authority to budget for a deficit.
- 3.2.3. More specifically, in terms of capital expenditure on assets with a long-term value to the Authority, this helps shape the way services are delivered over that long term and creates financial commitments for the future in the form of financing costs and revenue running costs. The capacity of the Authority to finance capital is constrained. This means that capital expenditure and financing plans also need to form part of overall financial planning, and must be carefully prioritised in order to maximise the benefit of scarce resources.
- 3.2.4. Furthermore, as part of the planning process it is important for the Authority to decide the level of provisions, reserves and balances it wishes to maintain before it determines the level of council tax. Provisions, reserves and balances are maintained as a matter of prudence, enabling the Authority to provide for unexpected events and recognised future commitments, thereby helping to protect it from overspending.

#### **3.3. Components**

- 3.3.1. **Financial Strategy (Known as the Medium Term Financial Strategy or MTFS)**
  - 3.3.1.1. The MTFS considers the Council's financial outlook and its risk profile, setting out how it will seek to balance its corporate and financial objectives and manage the key financial risks it faces.
  - 3.3.1.2. The MTFS is a key element of the Council's budget and policy framework, which is proposed by the Cabinet and approved by full Council.

- 3.3.1.3. In approving the MTFS, Council sets the financial strategy and boundaries within which Members and Officers must operate.
- 3.3.1.4. The MTFS will therefore contain any limits/parameters/other constraints within which the schemes for the treatment of virements between budget headings and year end under- and overspendings are to operate. [Note that for 2014/15, previous virement limits will be maintained.]
- 3.3.1.5. The Section 151 Officer is responsible for preparing a draft MTFS on a three-yearly rolling basis, for consideration by the Cabinet, before submission to full Council.

### **3.3.2. Annual Budget Process**

#### **3.3.2.1. Format of the Budget**

- a) The general format of the budget will be determined by the Section 151 Officer in accordance with legislative/regulatory requirements and having regard to any specific needs of Cabinet or full Council. The draft budget will include resources allocated to different services and projects, proposed taxation levels and any contingency funds and will cover the following:
- The General Fund annual revenue budget and five-year capital programme.
  - Housing Revenue Account (HRA) annual revenue budget (for Council Housing) and its five-year capital programme.
  - Collection Fund accounts.
  - Any other statutory accounts.

#### **3.3.2.2. Budget Preparation and Resource Allocation**

- a) In approving the MTFS, the Council sets the budget methodology for the period covered.
- b) The Cabinet is responsible for providing the direction to enable full budget and policy framework proposals to be developed for consideration by full Council.
- c) The Section 151 Officer is responsible for:
- issuing elected Members and Officers with budget preparation guidelines in accordance with the MTFS;
  - ensuring that a budget covering the elements in §3.3.2.1 is prepared on an annual basis, and providing due support;
  - developing, maintaining and advising on resource allocation processes that ensure due consideration is given to the budget and policy framework and associated options arising;
  - advising Cabinet and full Council on:
    - prudent levels of provisions, reserves and balances for the Authority;
    - the robustness of the estimates in the budget;
    - the affordability of spending plans, with particular regard to capital investment;
    - any legal or Governmental policy constraints on the levels of council tax; and



- expected levels of external funding, including the retention of business rate income, and any constraints regarding their use.
- d) Chief Officers are responsible for developing budget estimates that have been prepared in line with guidelines issued by the Section 151 Officer, reflecting proposed service plans, and for developing budget and policy framework options in line with Cabinet's directions.

### **3.3.2.3. Annual Budget Approval**

- a) Cabinet is responsible for proposing the draft MTFS and budget to full Council.
- b) Full Council is responsible for approving the MTFS and budget, prior to the statutory deadline of 11 March. Full Council may amend the budget or ask the Cabinet to reconsider it before approving it.

## **4. Management of Budgets**

### **4.1. What this covers:**

4.1.1. Management of budgets covers financial responsibilities and accountabilities in relation to the ongoing running of the Authority. It includes arrangements for:

- the incidence, monitoring, review and internal management reporting of budget activity; and
- procedures to enable the in-year variation of budgets (i.e. virements) and the treatment of year end under- or overspendings.

### **4.2. Why this is important:**

4.2.1. Budget management ensures that once the budget has been approved by full Council, allocated resources are used for their intended purposes, are properly accounted for, and value for money is achieved. Budgetary control is a continuous process, enabling the Authority to review and adjust its budget targets during the financial year. It also provides the mechanism that calls to account Members and Officers for defined elements of the budget.

4.2.2. By continuously identifying and explaining variances against budgetary targets, the Authority can identify changes in trends and resource requirements at the earliest opportunity. The Authority itself operates within an annual budget limit, approved when setting the overall budget. To ensure that the Authority in total does not overspend, each service is required to manage its own expenditure within the budget allocated to it.

### **4.3. Components**

#### **4.3.1. Managing Income and Expenditure: Budgetary Control**

4.3.1.1. The Section 151 Officer is responsible for providing appropriate financial information and advice to enable budgets to be monitored and controlled effectively. This includes maintaining an up to date, detailed approved budget during the year, and agreeing the levels at which budgetary control is to be exercised. He or she must monitor the overall position and report to Cabinet and the Budget and Performance Panel on a regular basis, and Council as necessary.

4.3.1.2. Chief Officers and any Officer designated by them as a Responsible Spending Officer are:

- a) authorised to incur expenditure in accordance with the revenue estimates that make up the approved budget, subject to any further specific conditions or requirements that may be attached. In short, it is the existence of an approved budget that confers authority to spend;
- b) responsible for collecting budgeted income, and maximising such income in accordance with relevant policies;
- c) responsible for the accurate recording of transactions at a detailed level against relevant cost centres and budgets;
- d) responsible for agreeing in-year virements within delegated limits, in consultation with the Section 151 Officer; and

- e) responsible for achieving value for money in the use of resources, both collectively at a corporate level, and individually within their own service areas.
- 4.3.1.3. In summary, Chief Officers are responsible for controlling income and expenditure within their area and for monitoring performance, taking account of financial information provided by the Section 151 Officer. They should report as necessary on variances within their own areas, take appropriate action to avoid exceeding their budget allocation, and alert the Section 151 Officer to any problems.
- 4.3.1.4. Nothing in these Regulations prevents the Chief Executive, the Section 151 Officer or duty Senior Emergency Officer from authorising expenditure essential to meet any immediate needs created by an emergency threatening life or limb, or related to major structural damage threatening the fabric of a building. If such a situation arises, the actions must be reported by the relevant Officer to the next Cabinet meeting (for referral on to Council if the consequences fall outside of the budget and policy framework).
- 4.3.2. **In-Year Budget Changes**
- 4.3.2.1. Full Council is responsible for:
- approving any proposed budget change that falls outside of the budget and policy framework, normally on referral from Cabinet; and
  - through the budget virement scheme included within the MTFS, setting the limits and constraints on the extent to which the Cabinet and/or Officers may reallocate budget funds from one service to another; and
  - through the carry forward of year-end over- and underspendings scheme as included within the MTFS, setting the limits and constraints on the extent to which the Cabinet and/or Officers may reallocate budget funds from one year to another (for revenue or capital).
- 4.3.2.2. Within the limits and constraints set by full Council, Cabinet is responsible for:
- giving prior approval for any proposed budget change that involves the transfer or redirection of resources on an ongoing basis from one service, function or activity to another; and
  - giving prior approval for any proposed budget change that would deliver in-year savings above the key decision thresholds.
- 4.3.2.3. The Section 151 Officer is responsible for administering the schemes for the treatment of year end under- or overspendings and the virement scheme, within the parameters set by full Council in the MTFS.
- 4.3.2.4. The Section 151 Officer is responsible for advising Cabinet, full Council and Officers on whether any particular circumstance or proposal falls within or outside of the approved budget framework, and for challenging and supporting Members and Officers in their decision-making, especially on affordability and value for money. He or she is responsible for advising on the financial thresholds for key decisions, where there is a requirement to do so.

- 4.3.2.5. The Section 151 Officer has authority to update the approved budget for any changes that are in accordance with the budget and policy framework and are either:
- budget/cost neutral (at least) and either below the Council's key decision threshold, or above the key decision threshold, but having no material operational impact and no significant future resource implications. Note that this includes funding matters under s4.3.3.4 or
  - to reflect any funding awarded automatically to the Council (that is, without bidding) for the provision of services or for other purposes, or
  - as a result of the properly authorised decisions of Council, its Committees, the Cabinet, or as delegated through the approved Officer Scheme of Delegation. Note that this includes funding matters under s4.3.3.2; or
  - to reflect the outcome of any buy or lease options appraisals undertaken regarding the procurement of vehicles, plant and equipment, or associated financing decisions.
- 4.3.2.6. The Section 151 Officer will report significant changes retrospectively, through normal financial monitoring and reporting arrangements.
- 4.3.2.7. Chief Officers are responsible for:
- a) consulting with the Section 151 Officer and obtaining relevant approval/s on any matter liable to affect the Authority's finances, before any commitments are incurred.
  - b) ensuring that relevant Members are advised of the financial implications of all proposals and that the financial implications have been agreed by the Section 151 Officer
- 4.3.3. **External Funding Arrangements**
- 4.3.3.1. Council is responsible for approving any external funding bid that falls outside of the budget and policy framework, normally on referral from Cabinet.
- 4.3.3.2. Cabinet is responsible for approving any external funding bid that is above the key decision threshold, and/or involves the redirection of resources between service areas, functions or activities on an ongoing basis, but is otherwise within the budget and policy framework.
- 4.3.3.3. Separately, where a proposal involves the Authority acting as the "accountable body" for a partnership or joint venture (often, but not always, involving external funding), the approval lies with Cabinet, with referral on to Council if outside of the budget and policy framework.
- 4.3.3.4. Chief Officers have authority, with the agreement of the Section 151 Officer, to express an interest in, bid for, and accept external funds where the total value of the bid does not exceed the Council's key decision thresholds and the proposal is (at least) budget neutral, subject to due diligence being demonstrated.
- 4.3.3.5. Chief Officers have authority to submit expressions of interest for external funding above key decision thresholds:

- subject to consultation with the Section 151 Officer and the relevant Portfolio holder, and additionally
  - the Leader and the Chief Executive, where the expression of interest falls outside of the Budget and/or Policy framework.
- 4.3.3.6. For clarity, an expression of interest in itself does not constitute a key decision.
- 4.3.3.7. Should any such expression of interest be successful, §4.3.3.1 and §4.3.3.2 will apply as normal (as will key decision notice requirements).
- 4.3.3.8. Chief Officers have authority to accept funding bids approved by Cabinet and/or Council, subject to due diligence being completed and with the written consent of the Section 151 Officer.
- 4.3.3.9. Chief Officers have responsibility for notifying the Section 151 Officer of all expressions of interest, bids, awards, claims and all other external funding matters. Additionally, they are responsible for liaising with the Section 151 Officer as necessary where it is proposed that the Authority acts as accountable body in relation to any proposed partnership or other joint venture.
- 4.3.3.10. All the above are subject to any alternative or additional authorisation as may be required by the external funding provider. In these instances, the Section 151 Officer must have prior notice of such requirements.
- 4.3.4. **Provisions, Reserves and Balances**
- 4.3.4.1. Reserves and balances are to be established and operated in accordance with the Provisions and Reserves Policy, proposed by Cabinet and approved by Council as part of the MTFs.
- 4.3.4.2. The Section 151 Officer is responsible for advising the Authority on the level of reserves and balances held and for ensuring that clear protocols are in place for their establishment and use.
- 4.3.4.3. In accordance with proper practices<sup>6</sup>, the Section 151 Officer has full authority to establish, manage and maintain appropriate financial provisions, as reflected in the approved Provisions and Reserves Policy.

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<sup>6</sup> 'Code of Practice on Local Authority Accounting in the United Kingdom', CIPFA

## **5. Financial Records and Reporting**

### **5.1. What this covers:**

5.1.1. Financial records and reporting covers the formal policies, records and documents that the Council is required to maintain, and the reports and returns it is required to produce for submission or publication to its external stakeholders. It includes the Council's accounting policies as well as its formal accounts, financial returns and claims and other reports required by the Government and/or external partners and funding bodies. These requirements have increased in recent years, linked to the Government's drive to increase transparency.

### **5.2. Why this is important:**

5.2.1. The Authority is accountable for millions of pounds worth of public money. Producing sound, accessible information supports accountability from the perspectives both of external stakeholders and the Authority's own.

5.2.2. The Authority has a statutory responsibility to prepare, approve and publish its accounts in accordance with proper practices<sup>7</sup> and must ensure that the accounts present fairly the Authority's operations during the year. Other regulations and proper practices also exist to ensure that financial information is kept and presented on a consistent basis, to provide transparency and openness, and to aid comparison with other organisations.

### **5.3. Components**

#### **5.3.1. Accounting Policies, Records and Returns**

5.3.1.1. The Section 151 Officer is responsible for:

- a) selecting accounting policies and ensuring that they are applied consistently;
- b) the operation of the Authority's accounting controls, the form of accounts and the supporting financial records;
- c) advising on the extent and format of asset records to be maintained by the Authority in order to meet all necessary accounting requirements;
- d) advising on and determining the establishment and operation of service accounting structures, cost centres and trading accounts;
- e) advising on and determining the accounting and any supporting financial arrangements to be adopted where the Council acts as the "accountable body" in relation to a partnership or joint venture; and
- f) Determining and operating any in-year external reporting arrangements as may be required or recommended under regulation or proper practices.

5.3.1.2. Chief Officers are responsible for ensuring that established accounting policies and accounting control systems are followed and necessary accounting and asset records are maintained.

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<sup>7</sup> 'Service Reporting Code of Practice for Local Authorities' CIPFA (published annually)

### 5.3.2. **Annual Statement of Accounts**

- 5.3.2.1. Full Council has delegated its responsibility for approving the annual statement of accounts to the Audit Committee, in accordance with the Accounts and Audit (England) Regulations 2011.
- 5.3.2.2. The Section 151 Officer is responsible for ensuring that the annual statement of accounts is prepared in accordance with proper practices<sup>8</sup> and for meeting requirements relating to International Financial Reporting Standards and the preparation of “Whole of Government Accounts”.
- 5.3.2.3. Chief Officers are responsible for ensuring that relevant Officers liaise effectively with the Section 151 Officer and his/her staff to enable the efficient and accurate compilation of the statement of accounts.

### 5.3.3. **Accounting Returns and Grant Claims**

- 5.3.3.1. The Section 151 Officer is responsible for the preparation and submission of any other public financial reporting or financial returns required by the Government.
- 5.3.3.2. Chief Officers are responsible for ensuring that their relevant Officers liaise effectively with the Section 151 Officer and his/her staff in compiling and submitting grant claims and funding returns.
- 5.3.3.3. The Section 151 Officer has general responsibility for approving the content and accuracy of grant claims and other funding returns, and signing off such documents, subject to any alternative or additional authorisation as may be required by the organisation providing the funding.

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<sup>8</sup> *‘Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice’ (CIPFA/LASAAC)*

## **6. Control of Resources**

### **6.1. What this covers:**

6.1.1. Control of resources covers the principles, processes and systems established by the Council to govern its activities and protect its assets and financial well-being. It includes:

- Treasury Management and banking arrangements for the safeguarding and management of the Council's monetary assets;
- the establishment and operation of other secure and reliable financial systems;
- arrangements for managing risk, including insurance;
- the maintenance of a sound system of governance;
- arrangements for effective independent review; and
- arrangements to manage and minimise the threats from fraud, corruption, and other forms of financial crime.

6.1.2. Effective treasury management is essential not only to safeguard the Authority's monetary assets and interests, but also to provide support towards the achievement of its business and service objectives. The Authority defines its Treasury Management activities as: *"The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"*.

6.1.3. The Authority operates a wide range of financial systems and procedures falling within the following general areas/functions:

- a) Income management (including both cash and credit income);
- b) Ordering and paying for work, goods and services;
- c) Payments to employees and elected Members (including pensions);
- d) Welfare payments;
- e) Accounting (including Trading Accounts, Business Units and Trust Funds);
- f) The management of, and accounting for, physical assets, including land, vehicles, plant and machinery, and stocks; and
- g) Taxation.

6.1.4. These Financial Regulations are supported by an extensive catalogue of policy, instructional, guidance and training documents covering the detailed operation of the Authority's financial systems and procedures.

6.1.5. Risk is defined as *'the probability of an event occurring and its consequences'* and the Council defines risk management as *'the process by which Lancaster City Council manages threats, enhances opportunities and creates an environment that adds value to all its activities'*.



- 6.1.6. Risk management (including insurance) is therefore concerned with those arrangements and practices aimed at identifying and managing the threats (and opportunities) which could influence the Council's ability to achieve its strategic and operational objectives and deliver value for money, including the following:
- Strategic or business risks;
  - Business continuity;
  - Health and Safety; and
  - Project management.
- 6.1.7. Sound systems of governance and internal control are essential in enabling the Authority to set and achieve its aims and objectives for the district. The Authority defines its own governance standards in its Code of Corporate Governance.
- 6.1.8. Internal Audit and External Audit, which are both required by legislation, provide an essential element of independent review of the Authority's financial management, governance and internal control arrangements.
- 6.1.9. The Council is committed to protecting itself and the public from all forms of fraud, theft, corruption and bribery, including any irregularity and the improper use or misappropriation of the Council's property or resources, and has accordingly put arrangements in place to combat these threats.

## **6.2. Why this is important:**

- 6.2.1. The Authority is a complex organisation with a wide range of activities. It therefore requires a clear and sound framework of governance and internal control to manage and monitor its progress towards strategic objectives, meet its statutory obligations and fiduciary duties, and protect its interests and assets.
- 6.2.2. In establishing and maintaining this framework, the Authority must have efficient and effective arrangements to:
- a) identify and manage significant risks;
  - b) secure its assets;
  - c) provide an adequate and effective internal audit, in accordance with The Accounts and Audit (England) Regulations 2011;
  - d) meet the requirements regarding external audit of the Authority's accounts, its systems of governance and its arrangements for securing value for money;
  - e) address the threats from potentially fraudulent or corrupt activity; and
  - f) ensure that due diligence<sup>9</sup> is performed in the arrangement and execution of all financial transactions, contracts and negotiations.

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<sup>9</sup> Due diligence is defined as: *“That measure of prudence, responsibility, and diligence that is expected from, and ordinarily exercised by, a reasonable and prudent person under the circumstances”*.

- 6.2.3. Sound financial systems and procedures are essential to an effective framework of accountability and control. The Council's services have many systems and procedures relating to the control of the Authority's assets, including purchasing, costing and management systems.
- 6.2.4. The Authority in general is increasingly reliant on technology for its financial management information. The information must therefore be accurate and the systems and procedures sound and well administered. Systems and procedures need to contain controls to ensure that transactions are properly processed, enabling the prevention and prompt detection of any errors or potential fraud, and that records can be reconstituted if the need arises.
- 6.2.5. Linked to these points, the Section 151 Officer has statutory (see §2.2) and professional (see §2.3) responsibilities to ensure that the Authority's financial systems are sound.

### **6.3. Components**

#### **6.3.1. Treasury Management**

- 6.3.1.1. The Authority has adopted proper practices in Treasury Management, as provided for in the Local Government Act 2003<sup>10</sup>.
- 6.3.1.2. Accordingly, the Authority will create and maintain, as cornerstones for effective treasury management:
  - a) a treasury management policy statement, stating the policies and objectives of its treasury management activities; and
  - b) suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 6.3.1.3. Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs.
- 6.3.1.4. The Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if they are a CIPFA Member, CIPFA's '*Standard of Professional Practice on Treasury Management*'.
- 6.3.1.5. The Authority nominates the Budget and Performance Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 6.3.1.6. The Section 151 Officer is responsible for:
  - a) arranging the borrowing and investments of the Authority in such a manner as to ensure:

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<sup>10</sup> '*Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*', CIPFA 2011

- compliance with the CIPFA Code of Practice on Treasury Management and the Authority's treasury management policy statement, strategy and practices;
  - that all investments of money are made in the name of the Authority or in the name of nominees approved by full Council;
  - that all securities that are the property of the Authority or its nominees and the title deeds of all property in the Authority's ownership are held in the custody of the Chief Officer (Governance);
  - that all borrowings are effected in the name of the Authority; and
  - he/she acts as the Authority's registrar of stocks, bonds and mortgages and maintains records of all borrowing of money by the Authority.
- b) reporting to full Council on treasury management as required by these regulations and in accordance with the Council's Treasury Management Practices;
- c) making recommendations to Cabinet regarding treasury management policies, strategies and principles, and maintaining detailed treasury management practices accordingly; and
- d) determining in liaison with the Chief Officer(Governance), and advising Chief Officers on, arrangements for the establishment and management of trust funds;
- 6.3.1.7. Chief Officers are responsible for ensuring that:
- a) loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without appropriate Member approval, following consultation with the Section 151 Officer; and
- b) where trust funds are held on behalf of third parties, they are managed in accordance with arrangements determined by the Section 151 Officer and Chief Officer (Governance).

### 6.3.2. **Banking**

6.3.2.1. The Section 151 Officer is responsible for:

- a) the opening, closing and operation of any bank accounts considered necessary;
- b) determining the provision, and rules for the security, operation and accounting, of any cash or bank imprest accounts required to meet minor expenditure on behalf of the Authority;

6.3.2.2. Chief Officers are responsible for ensuring that the instructions on banking issued by the Section 151 Officer are followed

### 6.3.3. **Financial Systems**

6.3.3.1. The Section 151 Officer is responsible for:

- a) the development and operation of the Authority's accounting systems, to ensure that financial transactions are recorded as soon as, and as accurately as, reasonably practicable;

- b) issuing instructions, and providing advice, guidance and training on the operation of financial systems and procedures for Officers, elected Members and others acting on the Authority's behalf. Such instructions must identify the duties of Officers, and division of responsibilities in relation to significant transactions;
- c) ensuring that uncollectable amounts, including bad debts, are only written off with his or her (or their nominated representative's) approval, and
- d) approving any changes proposed by Chief Officers to existing financial systems and procedures, or for the establishment of new systems.

6.3.3.2. Chief Officers are responsible for:

- a) ensuring that a proper scheme of delegation has been established within their areas and is operating effectively;
- b) the proper operation of financial processes in their own service;
- c) ensuring that their staff receive relevant financial training that has been approved by the Section 151 Officer;
- d) ensuring that 'due diligence' is performed by staff when conducting business involving financial transactions. In this context, due diligence is defined as: *"That measure of prudence, responsibility, and diligence that is expected from, and ordinarily exercised by, a reasonable and prudent person under the circumstances"*;
- e) obtaining the prior approval of the Section 151 Officer for any proposal to change existing financial systems (in whole or part) or to establish new systems (including any connections or interfaces with other systems).

6.3.4. **Risk Management**

6.3.4.1. The Audit Committee is responsible for approving the Authority's risk management policy statement and strategy and for reviewing their effectiveness, to help ensure that risk is appropriately managed;

6.3.4.2. The Chief Officer (Resources) is responsible for developing and promoting the Authority's risk management arrangements throughout the Authority, also to ensure their effectiveness in supporting high standards of corporate governance.

6.3.4.3. Chief Officers are responsible for implementing the Council's risk management strategies and policies.

6.3.5. **Insurance**

6.3.5.1. The Section 151 Officer is responsible for:

- a) ensuring that corporate arrangements are in place through external insurance and internal self-funding to provide appropriate insurance cover;
- b) reporting to the Cabinet on options regarding insurance arrangements, where appropriate;
- c) effecting insurance cover corporately, through external insurance and internal funding; and
- d) settling claims with claimants and/or insurers, in consultation with other Officers, as necessary.

- 6.3.5.2. Chief Officers are responsible for:
- a) keeping timely, accurate and up to date information on insurable risks and for notifying the Section 151 Officer of the scope of insurance cover required operationally;
  - b) notifying the Section 151 Officer immediately of any loss, liability or damage that may lead to a claim against the Authority, together with any information or explanation required by the Section 151 Officer or the Authority's insurers; and
  - c) consulting the Section 151 Officer and the Chief Officer (Governance) on the terms of any indemnity that the Authority is requested to give.

### 6.3.6. **Internal Controls and Corporate Governance**

- 6.3.6.1. The Section 151 Officer is responsible for advising on effective systems of internal control and for reporting regularly on their appropriateness.
- 6.3.6.2. Chief Officers are responsible for establishing and maintaining sound arrangements for planning, appraising, authorising and controlling their operations as a contribution to the Authority achieving a positive external audit opinion on its arrangements for securing value for money;
- 6.3.6.3. The Section 151 Officer, along with the Monitoring Officer and relevant Chief Officer(s), must consider the overall corporate governance arrangements and legal issues when developing contractual arrangements with external bodies. The Section 151 Officer, Monitoring Officer and relevant Chief Officer(s) must ensure that the risks have been fully appraised before agreements are entered into with external bodies.
- 6.3.6.4. In accordance with the Accounts and Audit (England) Regulations 2011, the Authority is required to conduct at least once each year a review of the effectiveness of its system of internal control; and
- 6.3.6.5. Following the review mentioned in 6.3.6.4 the Audit Committee is responsible for approving an annual governance statement prepared in accordance with proper practices<sup>11</sup>.

### 6.3.7. **Internal Audit**

- 6.3.7.1. The Accounts and Audit (England) Regulations 2011 require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices<sup>12</sup>.
- 6.3.7.2. The Audit Committee is responsible for:
- a) approving an Internal Audit Charter, drafted in accordance with proper practices<sup>12</sup> for internal audit, which sets out the organisational and operational arrangements under which internal audit will be managed and delivered;
  - b) approving and monitoring progress with Internal Audit plans;
  - c) reviewing Internal Audit findings and ensuring that appropriate action is taken; and
  - d) reviewing Internal Audit's performance, effectiveness and compliance with proper practices.

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<sup>11</sup> *'Delivering Good Governance in Local Government: Framework' CIPFA/SOLACE 2012*

<sup>12</sup> *'Public Sector Internal Audit Standards' and 'Local Government Application Note' CIPFA*

- 6.3.7.3. The Section 151 Officer is responsible for ensuring that an effective internal audit function is resourced and maintained.
- 6.3.7.4. The Internal Audit Manager is responsible for organising, managing and delivering an effective internal audit function in accordance with the approved Internal Audit Charter.
- 6.3.7.5. Chief Officers are responsible for ensuring that internal audit is enabled to operate efficiently and effectively in accordance with the approved Internal Audit Charter.
- 6.3.7.6. In accordance with the Accounts and Audit (England) Regulations 2011, the Audit Committee is responsible for, at least once each year, conducting a review of the effectiveness of internal audit and for considering the findings of that review as part of the review of the system of internal control (see § 6.3.6.4)

### 6.3.8. **External Audit**

6.3.8.1. The Audit Commission is responsible for appointing external auditors to each local authority (noting that this will change in due course, under the Local Audit and Accountability Act 2014). The basic duties of the external auditor are governed by section 15 of the Local Government Finance Act 1982, as amended by section 5 of the Audit Commission Act 1998. *Note: these responsibilities will change in due course in line with the provisions of the Local Audit and Accountability Act 2014.*

6.3.8.2. The Audit Committee is responsible for:

- a) commenting on processes for the appointment of the external auditor;
- b) receiving, commenting on, and monitoring progress with the External Auditor's plans; and
- c) receiving and commenting on all scheduled outputs from the External Auditor's work, including the annual Audit Letter.

6.3.8.3. The Section 151 Officer is responsible for:

- a) ensuring that external auditors are given access at all reasonable times to premises, personnel, documents and assets that they consider necessary for the purposes of their work;
- b) ensuring there is effective liaison between external and internal audit; and
- c) working with the external auditor and advising full Council, Cabinet and Chief Officers on their responsibilities in relation to external audit.

6.3.8.4. Chief Officers are responsible for ensuring that:

- a) external auditors are given access at all reasonable times to premises, personnel, documents and assets which they consider necessary for the purposes of their work; and
- b) ensuring that all records and systems are up to date and available for inspection.

### 6.3.9. **Preventing Fraud and Corruption**

6.3.9.1. The Section 151 Officer is responsible for:

- a) the development and maintenance of an anti-fraud and anti-corruption policy;
- b) maintaining adequate and effective internal control arrangements; and
- c) ensuring that all suspected irregularities are reported to the Internal Audit Manager, and the Head of Paid Service and any irregularity with a significant impact is reported to the Audit Committee and any other bodies as appropriate.

6.3.9.2. Chief Officers are responsible for ensuring that:

- a) all suspected irregularities are dealt with in accordance with approved response plans;
- b) the Authority's disciplinary procedures are instigated where the outcome of action taken in response to a suspected irregularity indicates improper behaviour; and
- c) ensuring that Officers' pecuniary interests are recorded in the register of interests maintained by Democratic Services.

6.3.9.3. The Internal Audit Manager is responsible for ensuring that:

- a) appropriate response plans, including arrangements to consult with all relevant Officers, are in place to deal with any reported or suspected irregularity; and
- b) where sufficient evidence exists to believe that a criminal offence may have been committed, the police are consulted to determine how the matter will be investigated and, with reference to the Crown Prosecution Service, whether any prosecution will take place.