



**Annual Report of the Responsible Finance Officer – Financial Year 5 April 2017 to 31 March 2018 –**

Approved at the Annual Parish Council Meeting held 30<sup>th</sup> May 2018

**Background**

The RFO of a Local Government Authority, irrespective of its size, is required to execute the directives of a duly elected Council in regard to ensuring the Council complies with certain key statutory duties specified in the Local Government and Finance Act 1992, Part1, Chapter III, Section 32, the Accounts & Audit Regulations Act 2015, Governance & Accountability Regulations March 2017 (JPAG) and others as relevant. Duties applicable to the Grendon Underwood Parish Council RFO are;

In collaboration with the Chair and at least one other Councillor, to prepare an annual budget for submission to full Council for approval;

By directive of the Chair and by using District Authority supplied software, to set & apply, in due time, to the District Authority, for an annual precept;

To hold and maintain in a form suitable for audit, a Register of Assets held by the Council and disposed of by Council;

To ensure all assets and operational & employer liabilities are adequately covered by insurance at all times;

To review and advise on the costs / return of subscriptions held by Council;

To hold and maintain in a form suitable for audit, a Cash Book itemising all expenditure, how payment was made, when payment was authorised, when payment was made, recipient & reason for payment;

To hold and maintain in a form suitable for audit, a register of all invoices, either in hard copy or electronically, for each financial year;

To hold and maintain, in collaboration with the Clerk, in a form suitable for audit, a register of all meeting minutes held in any financial year to ensure all expenditure is by Council minuted directive;

To hold and maintain in a form suitable for audit, bank statements showing income & expenditure for the financial year;

To hold and maintain in a form suitable for audit, a record of Accounts using Council authorised software on Council owned hardware, held on Council property and conforming to recognised accountancy practice;

To reconcile the Cash Book and the bank account such as to identify the dates expenditure is authorised against the dates taken;

To identify from the Cash Book the VAT element of expenditure and to prepare the VAT reclaim for next year;

To assist & support any professional service Council may wish to commission for the preparation and submission of a monthly declaration for HMRC and to submit for authorisation by full Council a monthly status of all employer liabilities regarding HMRC & NI payments in due time and to issue all employee documentation as required;



To identify, where applicable, any VAT element included in gross payments to suppliers and to prepare a year end VAT reclaim for submission to HMRC.

To submit to each meeting of full Council a summary of expenditure for the period from the previous meeting;

To regularly review the budget against actual expenditure such as to provide members with early warning of the likelihood of a shortfall (or surplus);

To arrange and attend an Internal Audit to be held by an external, independent auditor and to have to hand all documentation requested by the auditor;

To arrange and comply with all requirements for an External Audit to be held by an independent external auditor appointed by Government Agency and to submit to the auditor, in due time, all documentation as specified by the auditor;

To provide the Clerk with all end of financial year documentation as required by statute to be posted to the web site and notice board to include 'Dates for Exercise of Public Rights', Sections 1 & 2 of the Annual Governance & Accountability Return, the Internal Audit Report, the Certificate of Exemption, a Bank Reconciliation, an Explanation of Variances.

In line with the Council's Financial Regulations and Risk Management Policy, all financial transactions must be agreed by full Council and minuted and executed against minute by written signature of at least two Councillors, one to include the Chair. As such, under no circumstances is an employee empowered to take overall authority for making spending decisions or commitments or make unauthorised payments or make out to be acting on behalf of Council.

In the event of an unforeseen requirement for an urgent expenditure, the Council's Rapid Response Protocol will be initiated to ensure no one individual is ever empowered to spend public money unilaterally.

To identify and advise Council on a Reserves policy for any monies held by the Council that may be accounted for as reserves or contingencies and to provide early warning of potential risk to the operational capability of Council.

To recommend where reserves can allocated to General Reserves (Operational), Earmarked (Project) and Capital Reserves. Note: money accruing from CIL or S106 agreements must be accounted for separately and cannot be allocated to Reserves or accounted for under operational expenditure or income.

**General reserves** can be used for the purposes of running the Council's business and it is desirable to maintain these reserves at a level of 6 Months of the anticipated annual Expenditure. Adopting a 6-month General Reserve will enable the Council to continue to operate in the event of late or non-payment of the Precept. The External Auditor will review the level of General Reserve held and may instruct the Council to adjust the Precept if these reserves are considered either too high or, too low, to maintain a reasonable operating reserve.

**Earmarked Reserves (Project)** These are reserves allocated to special projects by resolution of the Council. Typically, these can be created by the transfer of surplus General Reserve at the end of the financial year or generated from other income such as the windfall income from S106.



**Capital Reserves.** The Capital Finance Regulations 2010 requires that the proceeds of the sale of Council Assets over £10,000 must be held in Capital reserves and used for Capital Expenditure only. Capital Reserves can be used to repay Capital Debt, make significant enhancements to existing assets or to purchase new Capital assets. They cannot be used for revenue purposes without the permission of the Secretary of State (rarely granted)

### **EXECUTIVE SUMMARY**

**General** - All Council expenditure is currently carried out electronically, by the Chair and at least one other Councillor, by Direct Debit, Standing Order or by BACS. All suppliers are compliant, have provided necessary bank details and welcome the change. These include BT Business, Opus Energy, Aylesbury Mains, Internal & External auditors, all subscription bodies, all grant recipients, safety inspectors, insurers, AVDC.

**VAT** - Grendon Underwood Parish Council is a 'Section 33 Body' under the VAT Act 1994 and is therefore able to reclaim VAT even though it is not VAT registered. VAT is calculated for each financial year as it relates to suppliers which are VAT registered. VAT is reclaimed in June each year.

#### **For the Financial year 1 April 2017 to 31 March 2018;**

Income was £ 23091 to include a £19385 Precept and a £ 2631 VAT return;

Operational expenditure was £ 19789 gross (to include VAT of £2047) which comprised;

£2703 for Staff Cost – this represents a 41% reduction over previous year to reflect staff changes;

£1765 for Office Overhead - this represents a reduction over previous year to reflect the Council office being located in the village;

£229 for Professional Services - this represents a small increase over previous year to ensure the Council conforms to its obligations as an employer;

£1555 for Insurances - this represents a small increase over previous year to reflect raised premiums;

£232 for Subscriptions - this represents a small increase over previous year to reflect increased subscriptions requested;

£5588 for Street Lighting - this represents an inflationary increase over previous year. Failures are currently running at a steady rate;

£2936 for Waste Management by AVDC - this represents an inflationary increase over previous year as required by the District Authority;

£1944 for General Maintenance by AVDC - this represents an inflationary increase over previous year as required by the District Authority;

£2837 in Grants AVDC - this represents an increase over previous year to support major improvements in the Village Hall and continued support of church grounds maintenance.

There was no additional spend out of reserves in the year.

After normal Operational Expenditure coupled with the exceptional reduction in staff costs, the Council ended the year with £ 34486 held in General Reserves – equivalent to an 18 month



Operational spend. This is not usual and Council has allocated some £10,000 for Earmarked reserves, over and above operational spend, in next year's budget for village improvements.

No reserves were nominated as Earmarked or Capital for last financial year.

The Internal Audit was held on 23<sup>rd</sup> May 2018 and Council's systems were found compliant. The Internal Audit Report is to be posted on the web site and notice board on ratification by the Council at its Annual Parish Council Meeting on 30<sup>th</sup> May 2018.

Mandatory submissions to the External Auditor will be made by 11<sup>th</sup> June 2018.

Outstanding HMRC requirements were resolved at end April 2018.

The 2017/18 VAT return is still to be generated .

**For the 2018/19 year;**

A Precept of £19385 was requested in January 2018 to maintain the effect on Band D equivalence.

A revised, from the approved budget, operational spend of £24139 is currently projected based on updated information now available.

An earmarked reserve of £9947 has been estimated for high probability and unforeseen contingencies.

After projected Operational expenditure only, Council Reserves would stand at £33379;

After projected Operational expenditure plus all Earmarked Reserves (the worst case scenario), Council Reserves would stand at £20131 – equivalent to a 12 month operational spend.

**I Annual Budget & Precept;**

The budget for any given year is established & itemised as a projection from actual expenditure in the previous year plus any additional, known forthcoming expenditure plus an allowance for any unforeseen contingencies (reserves);

It provides the basis on which the Council sets the precept request for that year;

The key stages in the budgeting process are;

1. decide the form and level of detail in the budget;
2. review the current year budget and spending;
3. determine the cost of spending projections;
4. assess levels of income;
5. correlate spending and income projections;
6. provide for contingencies and consider the need for reserves;
7. finalise the budget with explanations for any variances from the current budget and from current year expenditure and submit it for approval by full Council;
8. using the budget as the basis for projected expenditure and the precept (if granted) plus any expected income from County & District for devolved services and grants as the basis for projected income, establish the precept generated by District software is adequate for the year against the projected net income (expenditure less income), with due regard to the effect on residents tax, and that a credible basis for the request can be demonstrated;



9. the budget then provides a basis for monitoring progress during the year by comparing actual spending against planned spending.

**Compliance;**

*A budget for 2018/19 of £23061 and a precept of £19385.00 were formalised for submission to full Council by emergency session on 19<sup>th</sup> February 2018 and approved by full Council on 27<sup>th</sup> March 2018, minute: 1803.05 (a)*

*The budget assumes income from the full granting of the precept requested from AVDC, the contractually agreed income of £1560 from BCC for devolved services & a VAT reclaim of £2047 (derived from the Cash Book).*

*The 2018/19 precept request for £19385.00 had been submitted to AVDC on 18<sup>th</sup> January 2018 (exceptionally to comply with AVDC closing date) maintaining the Band D equivalent at the same level as the previous year for consideration by AVDC at their meeting held on 22<sup>nd</sup> February 2018.*

*A BCC contribution of £1560 for 2018/19 towards devolved services was properly accounted for in April 2018 and a projected VAT reclaim of £2087 is still to be progressed.*

*The 2018/19 budget assumes a full time Clerk in place for the whole year with a basic salary spend of £4056 plus an overtime salary spend of £500 are projected in the budget for the year- generating a tax liability of £800.*

*The budget prediction cannot and does not reflect projected income from S106 monies or any uncommitted potential income from other grants and the like.*

*Additional considerations for operational expenditure coming to light since the preparation of the budget has produced a projected operational spend of £24139 in 2018/19 which would result in a general reserve holding of £30078 for foreseen or unexpected contingency.*

*No reserves were identified as Earmarked or Capital Reserves in 2017/18. All balances must therefore be considered as General Reserve. It is probable that in previous years the External Auditors have been persuaded to accept such undesignated reserves as compliant with the Act, although this has not been officially recorded in any Minutes. With the appointment of new External Auditors and a large influx of funds for S106 (currently estimated about £ 132074) although over an unspecified time frame and accounted for by exception, this cannot be relied upon happening in the future.*

*It is also worth considering that holding reserves around £30k raises the possibility that AVDC would question the need for the precept requested in future years.*

*Projections for 2018/19 do show an Earmarked Reserve of £9947 for high probability & unforeseen contingencies. Given the worst case scenario of all contingencies being required, Council reserves would stand at £20131 - equivalent to a typical 12 months operational spend.*

*Projections for 2018/19 indicate variances from 2017/18 as follows;*

*Office overhead*

**II Asset Register**



An Asset Register is held by Council and reviewed annually at the Annual Parish meeting. Current Nominal & Book Value stands at £120047 which is an increase over last year to reflect acquisition of a CCTV system and IT equipment.

Assets are insured under a current insurance policy, the sum assured standing at £140294.

***Compliance;***

*Whilst the Asset Register is reviewed annually, it is some time since it was reconciled with the insurance policy. However, the variance between sums insured and book values as shown in the Asset Register are not considered an accounting risk.*

**III Statutory Records.**

The Internal auditor needs to confirm Council can demonstrate accounting conformity by inspection of the following;

1. Asset register & insurances;
2. Minutes in hard copy to include the precept meeting;
3. A Cash Book;
4. Invoices;
5. Accounts to show expenditure and income, with variances over last year;
6. A full and compliant Accounting process to recognised accountancy practice;
7. Conformity with VAT, Payrolls, HMRC requirements.
8. All Council Policies including Standing Orders, Financial Regulations, Risk Assessment.

***Compliance;***

*The Cash Book is maintained under Council approved software and on Council owned equipment and held on Council property and itemises all expenditure against date authorised and date taken, with recipient & reason.*

*Bank Statements are taken monthly and consolidate at year end.*

*All invoices for the year are held in hard copy.*

*All minutes for the year are signed and are held in hard copy;*

*The statutory Annual Governance & Accountability Return (AGAR) to include an Annual Internal Audit Report, signed by a qualified independent, external auditor, an Annual Governance Statement, signed by Council, an Accounting Statement, signed by Council and an External Auditors Report signed by the duly appointed external auditor are all held either electronically & published to the notice board and web site as required.*

*The statutory Notice of Conclusion of the Annual Return is signed by Council and held in hard copy and posted to the web site as required.*

**IV Annual Audits**

**(a) Internal Audit; Council must demonstrate to an external, independent Internal Auditor that**

- A. Appropriate accounting records have been kept properly throughout the year;



- B. Council has met its financial regulations, payments are supported by invoices, all expenditure was approved and VAT was properly accounted for;
- C. Council has assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these;
- D. The precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate;
- E. Expected income was fully received, based on up to date information & agreements, properly recorded and promptly banked; and VAT appropriately accounted for;
- F. Salaries to employees and allowances to members were paid in accordance with Council approvals, and PAYE & NI requirements were properly applied;
- G. Asset & investments registers were complete and accurate and properly maintained;
- H. Periodic & year-end bank account reconciliations were properly carried out;
- I. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts, & payments or income & expenditure) agreed to the cash book, supported by an adequate audit trail from underlying records and, where appropriate, debtors & creditors were properly recorded.

To this end, the RFO must make available for audit;

- The previous year's Annual Return;
- The previous year's invoices;
- The previous year's minutes;
- The Minute the precept was set;
- The Minute the budget was set;
- Council Policies including Standing Orders, Financial Regulations, Risk Assessment;
- The Asset Register.

**(b) External Audit; Council must demonstrate to an external, independent External Auditor that**

Council has diligently, transparently and correctly complied with its responsibility to ensure its financial management is adequate and that it has a sound system of internal control.

To this end the Council must prepare an Annual Governance & Accountability Return (AGAR) to summarise accounting records for the relevant tax year and to confirm & provide assurance on those matters relevant to the External Auditor's duties & responsibilities.

Section 1 of the AGAR should be completed before Section 2.

In addition, at the conclusion of the External Audit, the Accounts and Audit (England) Regulations 2015 set out that Council must;

1. Publish (which must include publication to the Council web site) a statement to the effect;
  - The audit has been concluded and that the Statement of Accounts has been published,
  - Of the rights of inspection conferred on local government electors by section 25 of the Local Audit & Accountability Act 2014,
  - The address at which, and the hours during which, those rights may be exercised;
2. Keep copies of the Annual Return for purchase by any person on payment of a reasonable fee;



3. Ensure that the Annual Return remains available for public access for a period of not less than five years beginning with the date on which the Annual Return was first published;

The 2015 Act does not specify the period the signed off accounts need to be on the Council's web site but this period must be reasonable.

**Compliance;**

*The 2016/17 Annual Internal Audit Report was signed off on 25<sup>th</sup> May 2017 by M. Rose.*

*The 2017/18 Internal Audit is was signed off on 23<sup>rd</sup> May 2018 by M. Rose;*

*The 2016/17 External Auditor Certificate was signed off on 10<sup>th</sup> September 2017 by Mazars.*

*The 2017/18 External Audit is yet to be scheduled.*

*The Council's 2016/17 Annual Return - annual governance statement (Section 1) was approved on 27<sup>th</sup> June 2017.*

*The Council's 2016/17 Annual Return - accounting statements summary (Section 2) was approved on 27<sup>th</sup> June 2017.*

*The Council's 2016/17 Annual return was published to the web site on 29<sup>th</sup> June 2017.*

*The annual 'Notice of appointment of data for the exercise of public rights Accounts for the year ended 31<sup>st</sup> March 2017' was published to the web site on 29<sup>th</sup> June 2017*

*The annual 'Notice of appointment of data for the exercise of public rights Accounts for the year ended 31<sup>st</sup> March 2018' will be published to the notice board & web site on 1<sup>st</sup> June 2018.*

**V Accountancy Practice**

Grendon Underwood Parish Council is responsible for and is required to demonstrate, both as a Local Government Authority and as an employer, that its financial management is adequate and effective and that it has sound systems of internal control compliant with statute & industry standard practice.

**Compliance.**

*In order to demonstrate a sound system of control, the Council holds the following records; a Cash Book (electronic), Bank Statements (electronic), invoices (hard copy & electronic), minutes (signed hard copy & electronic), including at which the precept and budget were authorised by full Council, budget & accountancy software for the presentation to Council of monitoring and management processes, the Annual Governance & Accountability Return (hard copy & posted electronically), the Annual Notice of Conclusion of the Audit (hard copy & posted electronically).*

**VI HMRC, Payroll, Pensions, NI, VAT**

Grendon Underwood Parish Council is a 'Section 33 Body' under the VAT Act 1994 and is therefore able to reclaim VAT even though it is not VAT registered. As such, the Council calculates the VAT it has spent over the year relating to suppliers which are VAT registered and submits a VAT reclaim in June each year.



The Council remains responsible for and is required to demonstrate, both as a Local Government Authority and as an employer, that it complies with all employment legislation regarding HMRC/ NI, pensions, payroll, VAT. In recognition of a specific risk identified in the May 2018 Risk Assessment review, Council has resolved to supplement the RFO role with an external professional provision to ensure timely compliance with all relevant legislation.

As a small employer, the Council will submit its NI data quarterly.

***Compliance.***

*An outstanding HMRC arrears of about £300 for 2017/18 was resolved and the account now stands reconciled as at Financial Year (FY) end;*

*All employee pay slips and a P60 were issued at FY end;*

*All monthly mandatory declarations to HMRC were brought up to date by FY end;*

*An outstanding VAT return is still to be generated;*

*All new employee forms were issued for the start of the Acting Clerk tenure and will be generated for the new Clerk in July 2018;*

*The FY end quarterly NI payments were made in due time;*

*An end of year summary detailing the tax & NI totals for the year and a year to date breakdown of the same split by employee was generated in good time;*

*A payroll year end final submission to the Revenue was made in good time.*

*HMRC, NI, VAT, Payroll – whilst accepting Council has sole responsibility for compliance, it has resolved to use external professional services to ensure compliance with all employment legislation.*

**Proposed Actions.**

**Proposal 1.** - Formally categorise expenditure as operational or contingency.

**Proposal 2.** - Council resolve to hold a minimum General Reserve equivalent to 6 months of the Net Revenue Expenditure [Expenditure less income].

**Proposal 3** - Council considers how best to account for S106 incomes against designated project outgoings.

Responsible Finance Officer  
Grendon Underwood Parish Council

May 2018