

Erlestoke Parish Council

Internal Audit Report 2018-19

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Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). This report sets out the work undertaken in relation to the 2018-19 financial year.

Internal Audit Approach

In undertaking the review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/AGAR. Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over several internal control objectives.

Due to the low volume of transactions, we have again applied a direct substantive testing approach to the year's transactions.

Overall Conclusion

We note the appointment of a new clerk towards the end of the financial year and wish her every success in working with the Council.

We are disappointed to note that the majority of the issues raised in our 201-18 report have still to be addressed, noting that they were first formally discussed at the May 2019 Council meeting: consequently, where still applicable, they are reiterated in this year's report and should be addressed in a timely manner. A number of further issues have been identified with the manner in which the cashbook record that we set up for use by the previous clerk has been maintained during the year with incomplete analysis of expenses during the year to facilitate reporting of budgetary performance and inaccurate bank reconciliations recorded at the end of each quarter after that for June 2018. We are also concerned to note that no review of the Council's risk register was undertaken since March 2018 until May 2019 contrary to the requirements of the Governance and Accountability Manual (G&AM) – "The Practitioner's Guide". The absence of any formal review or re-adoption of the register between 1st April 2018 and 31st March 2019 will result in a negative assurance from us in our report for the year and will also require the Council to give a negative response at Section 1 Box 5 of the year's AGAR.

Based on the generally satisfactory conclusions drawn from completion of our review programme for the year, we have duly signed off the Internal Audit Report assigning positive assurances in each relevant area, except that relating to risk, as above.

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Detailed Report

Maintenance of Accounting Records & Bank Reconciliation

The Council operates two bank accounts with Lloyds (Treasurer's and Business Instant), with transaction detail recorded in a spreadsheet cashbook, which we consider appropriate given the level of annual transactions.

We have reviewed the content of the spreadsheet cashbook noting a number of issues in the recording of the year's transactions, primarily the absence of any analysis of the year's expenses after the first quarter between the various headings other than in relation to staff costs. Even so, these entries are effectively incorrect as they include the clerk's "out-of-pocket" expenses on postage and stationery, which should not be regarded as an employment cost: the G&AM requires that direct salary and employer contribution costs, together with travel expenses only should be regarded as such for inclusion at Section 2, Box 4 of the AGAR.

We also noted that the quarterly bank reconciliation detail at the foot of each quarters cashbook worksheet did not balance for three of the quarters, as the opening balance was mis-stated by 3p: also the HMRC payment on 27th November was incorrectly entered as £208.10 instead of the correct amount of £208.40, which agreed with the PAYE calculator detail and was actually paid through the bank account.

The latest NALC guidance on bank reconciliations, as embodied in their model Financial Regulations (FRs), together with the G&AM guidance requires that these be undertaken quarterly, as a minimum, with the detail examined by a nominated independent councillor (i.e. one not involved in cheque signing) who checks their accuracy and signs them off accordingly.

We have, consequently, worked through the cashbook making all necessary amendments in order to ensure that the cashbook now effectively balances with the bank accounts at the close of each quarter and financial year-end. In order to assist the new clerk ensure that the cashbook records are maintained appropriately in future with meaningful and accurate bank reconciliations prepared, we have worked through the issues arising in 2018-19 with her explaining the correct approach to recording detail therein. We note that the first quarter's cashbook for 2019-20 has also been set up and have again examined the content ensuring that detail is accurately recorded, also setting up the remaining three quarterly cashbooks for her use.

Conclusions and recommendations

As indicated above, we have identified a number of inaccuracies and omissions in the recording of transaction data in the cashbooks together with the absence of accurate and meaningful quarter-end bank reconciliations. We should point out that this arose in the early stages of the year prior to the new clerk's appointment.

- R1. *The newly appointed clerk should ensure the accurate recording of transaction detail in spreadsheet cashbooks for 2019-20, together with accurate completion of bank reconciliations at the close of each quarter.*
- R2. *A formal quarterly bank reconciliation should be prepared and be reviewed by a councillor independent of the cheque signing / payment release process.*

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that the Council and, where applicable, Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are reasonably able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We also aim to ensure that appropriate policies, procedures and protocols are in place to prevent and provide a reasonable assurance of the detection of any fraudulent or corrupt activity.

We have recorded in previous reports that the Council last reviewed and adopted Standing Orders (SOs) and Financial Regulations (FRs) at its meeting on 5th April 2017. Examination of their content indicated that the FRs were not wholly in line with the latest NALC model document issued in January 2016 with no references included to the revised EU legislation and Public Contracts Regulations. We provided the Chairman with electronic copies of the latest NALC model FRs, together with a raft of NALC produced documentation relating to procurement.

NALC has also now issued an updated set of Standing Orders to take account of the legislative changes relating to both procurement issues and the impact of GDPR legislation and commend the document as a sound basis for the Council to use when next re-examining and updating its own extant documentation. We understand that the SOs have been re-adopted at the May 2019 Council meeting: on examination of their content, we note that the document is still not in line with the latest NALC model document with no reference to the requirements of the recent revisions to EU and Public Contracts Regulations. We acknowledge that the new clerk has only been in post a short time and urge the Council to consider adopting the latest NALC model SOs and FRs as soon as practicable in 2019-20. We have duly provided the new clerk with electronic copies of the latest NALC model SOs and FRs to assist the process.

We have examined the Council minutes for the year and to date in 2019-20 to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, whilst also ensuring that, as far as we may reasonably be expected to ascertain as we do not attend, the Council has neither considered nor is considering any actions that may result in ultra vires expenditure.

We also note that the Council adopted the General Power of Competence during 2018-19: and again at its meeting in May 2019: following the departure of the Council's former qualified clerk: as the new clerk is not, as yet, qualified, the Council can no longer rely on that power when approving expenditure until such time as it again meets all qualifying criteria.

The Transparency Code for Smaller Authorities, which became mandatory from 1st April 2015, requires all councils with an annual budgeted turnover of less than £25,000 to publish on a website the following detail:

- Annual Governance and Accountability Return (AGAR)
- Internal audit report
- Payments over £100
- Year-end accounts
- Assets
- Councillor's responsibilities
- Minutes and agendas

Examination of the current Council website indicates compliance only in relation to the first, second and final elements.

Finally, in this area, we note that the Council again meets the qualifying criteria to seek exemption from the “limited Assurance” external audit regime.

Conclusions and recommendations

As indicated above, we consider that the existing Standing Orders (as recently adopted) and Financial Regulations should be subjected to further review and update to reflect all recent changes in legislation. The Council will also need to ensure that it complies fully with the disclosure requirements of the Transparency Code for a Council the size of Erlestone.

- R3. The existing Financial Regulations and Standing Orders should be reviewed to take account of more recent versions of the NALC model documents, bringing the Council’s documentation into line with those documents.*
- R4. The Council must ensure that it complies with the disclosure requirements of the Transparency Code.*
- R5. The Council may not apply the General Power of Competence until such time as it again meets all qualifying criteria.*

Review of Payments and VAT

Due to their very low volume, we have reviewed all payments made during the year to ensure that the following criteria were met:

- Payments are supported by a trade invoice or acknowledgement of receipt;
- Members are scrutinising all payments and evidencing their review accordingly;
- VAT has been calculated correctly and is recovered at appropriate intervals;
- The Council at a Council meeting approved each payment; and
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.

In examining the documentation provided, we have noted that only one invoice (a monthly standing payment is made) in respect of Zen Internet is held on the file of processed payments and that is made out to Councillor Jonik. Whilst the monthly payments are minimal, they include VAT, which the Council should be able to reclaim, although it has not been routinely identified for recovery in the cashbooks: in order to ensure that no issues arise with regard to recovery of the VAT, arrangements should be made for the invoices to include reference to the Council rather than an individual.

We also noted an anomaly with the payment made to the former clerk in late December 2018 (See later section on Review of Staff Salaries for detail).

We have reviewed the procedures in place for the processing of invoices noting that the former clerk initiated a system of Remittance advices that should be signed by two members and

attached to trader invoices: we noted that a number of the invoices / other documentation supporting payments during 2018-19 have not been signed off by members.

Whilst detail of approved payments is recorded in the minutes and cheque counterfoils are being initialled by the two members signing cheques, the actual invoices bear no indication of member review. As indicated in last year's report, following on from a fraud perpetrated by a Town Clerk on the South coast a few years ago, we consider it essential that the invoices themselves are initialled by the cheque signatories as evidence of their review and to reduce the risk of duplicated submission and payment arising.

In last year's report we recommended that a suitably designed rubber certification stamp be acquired and affixed to every trader invoice or other documentation supporting payments. Ideally, the stamp should include the following detail: -

- ✓ Clerk's initial's confirming receipt of goods and / or services
- ✓ Cheque number and date of payment approval / release
- ✓ Signatures of two authorised councillor signatories

We note that a VAT reclaim relating to 2017-18 was repaid by HMRC in July 2018 in the sum of £248.22: the 2017-18 cashbook identified recoverable VAT of £270.80: we have not been provided with a copy of that reclaim and have, consequently, been unable to verify the accuracy of its content.

We therefore suggest that, if detail of the claim can be found, the new clerk should compare it with the 2017-18 cashbook and, if appropriate, ensure that any omitted detail is included with the reclaim to be prepared for 2018-19.

Conclusions and recommendations

As indicated in last year's report, we again suggest that the expenditure certification and evidencing process be further enhanced by the acquisition of a suitably designed rubber stamp to be affixed to each invoice and "signed-off" accordingly. We note agreement to implement this in 2019-20 at the May 2019 Council meeting. Appropriate documentation should be obtained and retained supporting all payments.

- R6. *All payments should be supported by an appropriate invoice or pro forma duly certified as approved for payment by the Chairman and be made out in the name of the Council to ensure that any VAT incurred may be recovered.*
- R7. *Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice approved for payment and be "signed-off" accordingly.*
- R8. *The clerk should ensure that any underclaimed VAT in 2017-18 is included in the next reclaim to be submitted to HMRC.*

Assessment and Management of Risk

All councils must, in accordance with the requirements of the G&AM, develop, review, update (if appropriate) and re-adopt formally at least once in each financial year a risk assessment

document. We note that a document was prepared and submitted to and adopted by the Council at the March 2018 meeting with it re-adopted subsequently in May 2019. As no formal review and re-adoption occurred during the 2018-19 financial year, we are duty bound to give a negative assurance in this area of the Internal Audit Report in the year's AGAR as will the Council in Section 1, Box 5.

The Council is insured by Zurich: we have examined the insurance schedule and consider the level of cover afforded to be appropriate for the Council's current requirements with Employer's and Public Liability cover both in place at £10 million and Fidelity Guarantee cover set at £25,000.

Conclusions and recommendation

As indicated above, the Council must comply with the requirements of the G&AM formally reviewing and adopting its risk register(s) at least once in each financial year.

R9. The Council must ensure compliance with the requirements of the Governance and Accountability Manual - "The Practitioner's Guide" formally reviewing and adopting a risk register at least once in each financial year.

Budgetary Control and Reserves

We note that the Council has, following due deliberation determined its budgetary and precept requirements for 2019-20 formally approving and adopting the latter at £6,805 at the January 2019 full Council meeting.

As last year, we note that members receive periodic financial information, including detail of bank balances, receipts and payments since the previous meeting. We have examined the year-end position noting a retained total fund balance of £11,122 (£9,179 as at 31st March 2018).

As last year, we note the holding of Section 106 funds of £1,145 and, although not formally minuted or identified, the existence of earmarked funds for play equipment renewal (£1,000) and traffic calming (£1,000) within the overall reserve balance leaving a General Reserve balance of approximately £8,000, which equates to in excess of a year's revenue spending at current levels and is potentially excessive.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation, although members should ensure that retained funds are held at a reasonable level to meet ongoing revenue spending and any possible unforeseen events.

Review of Income

The Council has very limited income sources arising from the annual precept, recovered VAT, occasional grants and very limited amounts of bank interest. We have checked and agreed all cashbook transactions to bank statements and other available supporting documentation for the financial year with no issues arising other than the previously mentioned apparent 20017-18 VAT reclaim.

Conclusions

No issues have been identified in this area requiring further comment or recommendation.

Petty Cash Account

No petty cash account is in use at the Council with any out-of-pocket expenses incurred by the clerk reclaimed and paid accordingly through the usual trader payment procedure.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions.

The 1996 Employment Act requires that all employees are provided with a formal contract of employment: we are pleased to note that the new clerk has been provided with and signed an appropriate Employment contract, which clearly sets out her employment terms and conditions.

HMRC Basic PAYE Tools software is used to calculate the clerk's gross pay and any resultant tax and / or NI liability: we have checked and verified the accuracy of remuneration paid during 2018-19 and are pleased to note that an appropriate time sheet and expenses reclaim is prepared in respect of each salary / expenses payment made quarterly to the former clerk during the year. The new clerk received no salary payment during the financial year.

In examining the payments made to the former clerk during the year, we note that her third quarter's salary paid on 28th December 2018 was paid gross without deduction of the tax due: this was subsequently paid to HMRC on 8th January 2019.

Conclusions and recommendation

Our only concern in this area is the apparent overpayment of the former clerk's third quarter salary which appears to have been paid gross rather than net of the appropriate tax deduction.

R10. Members should review the apparent salary overpayment made to the former clerk and seek recovery if deemed appropriate.

Fixed Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned: we are pleased to note actions taken by the new clerk and members to establish an appropriate register. We noted last year that the detail contained therein did not wholly match that shown on the insurance schedule, the latter identifying the Council's apparent ownership and insurance of "contents" (£7,500); street furniture (£20,000); mowers and machinery (£6,000) and Sports Equipment (£6,000). It has now been established that these items neither exist nor are owned by the Council and have consequently been excluded from the 2018-19 asset register. It may well be that these are standard items in the insurer's schedule of cover and as such, no saving in premium may arise even if they are removed from the schedule.

Consequent on the above, the asset register value has been amended appropriately, with that value now recorded in the AGAR at Section 2, Box 9.

As also reported last year, many of our clients are now also developing a photographic register of assets, such as street furniture. We consider this a further example of best practice as it provides the Council with clear evidence of the condition of fixed assets and should assist in the event of any insurance reclaim or police investigation being necessary following damage to or theft of such assets. We also note that this will be addressed during 2019-20 with once councillor undertaking the review and development of an appropriate record.

Conclusions and recommendations

It may well be that, in preparing the photographic register of assets, additional assets are identified and / or some are deemed “no longer serviceable” and should be added to or deleted respectively from the register. Whilst we appreciate the work undertaken by the former clerk to establish the basis of the Council’s asset stock, we consider that the register now in existence could and should be expanded to include the following basic data, although we acknowledge that full information on each asset may not be identifiable.

- ***Date of acquisition***
- ***Asset detail***
- ***Siting in parish***
- ***Purchase cost, net of VAT***
- ***Insured value (to be updated annually)***

R11. The asset register should be expanded to include the basic information as set out above, where known, on each asset as set out in the body of the report.

R12. Action to prepare and approve a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary should be expedited as soon as practicable.

Investments and Loans

The Council has no funds held in investments nor does it have any loans in existence repayable either by or to itself. Monthly interest on the bank deposit account is accounted for appropriately, subject to our previous comments on the need to maintain appropriate accounting records throughout the financial year.

Statement of Accounts and AGAR

The AGAR Section 2 now provides the Council’s statutory Accounts subject to external audit certification: however, as the annual turnover is below £25,000, the Council has again opted for exemption from an external audit, although it will, in line with the requirements of the Transparency Code, still be required to publish a raft of information on the Council’s website.

We have reviewed the financial information at Section 2 of the AGAR presented for our examination noting that, due to the absence of appropriate analysis of entries in the quarterly

cashbooks for the year, some detail is incorrect: we have provided the new clerk with the amended detail to be recorded in the AGAR.

Conclusions

No additional issues arise in this area warranting formal comment, subject to appropriate amendments being made to the AGAR financial detail, and we have duly signed off the Internal Audit Report in the year's AGAR assigning positive assurances in each relevant area except in relation to the lack of review and adoption of the Council's risk register during the financial year.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	The newly appointed clerk should ensure the accurate recording of transaction detail in spreadsheet cashbooks for 2019-20, together with accurate completion of bank reconciliations at the close of each quarter.	
R2	A formal quarterly bank reconciliation should be prepared and be reviewed by a councillor independent of the cheque signing / payment release process.	
Review of Corporate Governance		
R3	The existing Financial Regulations and Standing Orders should be reviewed to take account of more recent versions of the NALC model documents, bringing the Council's documentation into line with those documents.	
R4	The Council must ensure that it complies with the disclosure requirements of the Transparency Code.	
R5	The Council may not apply the General Power of Competence until such time as it again meets all qualifying criteria.	
Review of Payments and VAT		
R6	All payments should be supported by an appropriate invoice or pro forma duly certified as approved for payment by the Chairman and be made out in the name of the Council to ensure that any VAT incurred may be recovered.	
R7	Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice approved for payment and be "signed-off" accordingly.	
R8	The clerk should ensure that any underclaimed VAT in 2017-18 is included in the next reclaim to be submitted to HMRC.	
Assessment and Management of Risk		
R9	The Council must ensure compliance with the requirements of the Governance and Accountability Manual - "The Practitioner's Guide" formally reviewing and adopting a risk register at least once in each financial year.	

Rec. No.	Recommendation	Response
Review of Staff Salaries		
R10	Members should review the apparent salary overpayment made to the former clerk and seek recovery if deemed appropriate.	
Asset Registers		
R11	The asset register should be expanded to include the basic information as set out in the body of the report, where known, on each asset as set out in the body of the report.	
R12	Action to prepare and approve a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary should be expedited as soon as practicable.	