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# **Hockley Parish Council**

*Internal Audit Report 2017-18 (Final Update)*

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*John Watson*

*Auditing Solutions Ltd*

## **Background**

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return. Auditing Solutions Ltd has provided this service to Hockley Parish Council since 2008-09.

This report sets out the work undertaken in relation to the 2017-18 financial year, during the course of our two visits to the Council, which took place on 13<sup>th</sup> October 2017 and on 25<sup>th</sup> May 2018. The report also includes the findings of our visit on 23<sup>rd</sup> January 2018 where we were asked to investigate the fraudulent transactions which had occurred on the Council's bank account.

## **Internal Audit Approach**

In undertaking our 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/Annual Return (AGAR). Our programme of cover has again been designed to afford appropriate assurance that the Council's financial systems remain 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 Annual Return (AGAR), which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, on the basis of the programme of work undertaken this year, but with the unfortunate exception of the issue as mentioned later in this report, the Council has maintained adequate and effective internal control arrangements. We thank both the previous Clerk and the recently appointed Clerk for their assistance, which has ensured the smooth progress of our review process.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council is continuing to use the bespoke Omega software to maintain its accounting records, with periodic support and advice provided by third party contract accountants (DCK Beavers Ltd). There is one operational bank account currently maintained at Barclays Bank Plc. Additionally an account was opened with Metro Bank on 28<sup>th</sup> April 2017. At present, two additional supplementary Tracker and Base Rate Saver Reward bank accounts are in place with no periodic Term deposits held.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have consequently: -

- Checked and agreed the opening trial balance detail in the financial software for 2017-18 with the closing detail contained in the 2016-17 Statement of Accounts and Annual Return.
- Ensured that the financial ledgers remain “in balance” at the year end;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Checked and agreed detail in the Barclays Bank Current Account cashbook, examining sample months’ transactions for the months of May & July 2017 and for the month of March 2018 in full to relevant bank statements;
- Checked and agreed detail in the Barclays Bank Base Rate Reward account cashbook, examining two months’ transactions for the months May and September 2017 and for the period from September 2017 to March 2018 in full to relevant bank statements;
- Checked and agreed detail in the Barclays Bank Business Premium account cashbook examining the year in full to relevant bank statements;
- Checked and agreed detail in the Metro Bank account cashbook, examining two months’ transactions for the months of May and June 2017 and for the month of March 2018 in full to relevant bank statements; and,
- Checked the bank reconciliations on all bank accounts as at 31<sup>st</sup> March 2018.

We note that during the year more use was made of internet banking with the Metro Bank; we regret to note that the Council was subject to a limited number of fraudulent transactions on the Metro Bank account resulting initially in the loss £11,000. We understand that the Metro Bank were able to recover £4,000 of this sum. We further understand that Council is pursuing all avenues in an endeavour to recover the balance of these monies. We recommend that Council ensure that the staff operate more stringent controls when dealing with telephone calls relating to the bank accounts. Finally, we understand the Council will close the Metro Bank account.

### *Conclusions and Recommendations*

***We recommend that staff be made aware of the necessity to be more prudent when dealing with telephone calls purporting to be from the Council bankers. We have ensured the accuracy and accurate disclosure of the year-end bank and cash balances in the AGAR.***

*RI. Council staff should be more prudent when dealing with telephone calls purporting to be from the Council bankers.*

## **Review of Corporate Governance**

Our objective is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have:

- Completed our review of the Council's minutes, examining those for the Full Council and its Standing Committee meetings (with the exception of Planning) for the period to September 2017 with a view to identifying whether or not any issues exist that may have an adverse effect on the Council's future financial stability, both in the short and longer term: we are pleased to report that no such issues appear to exist at present;
- Noted from this examination of minutes that neither Standing Orders or Financial Regulations have been reviewed in the year to date with both documents being revised and adopted at the Council meeting held on 19<sup>th</sup> February 2018. We draw the Clerk and Members attention to the recently issued NALC model Standing Orders which should be used as the basis for any revision; and,
- Noted that Council agreed the 2018-19 precept in the amount of £235292.12 plus Council Tax Support Grant of £6,732.

We are pleased to note that details of the tender in respect of replacing the building at the rear of the hall were loaded on the Government Procurement Website but note that sealed tenders were not requested. We suggest that all tenders should be submitted in sealed envelopes which should then all be opened at the same time and logged accordingly. We also suggest that regular contracts should be re-tendered at least every two years.

### ***Conclusions***

***We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- That members are provided with, and approve, the regular schedules of payments made;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and

- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have completed testing in this area, reviewing a sample of all payments individually in excess of £1,500, together with a more random sample of approximately every 20<sup>th</sup> cashbook transaction, irrespective of value, for the year. Our sample comprised approximately 56 payments in all totalling £106,612 and representing 62% of all non-salary expenditure to that date.

We have confirmed that VAT has been appropriately identified and coded to the control account for periodic recovery and note that a claim has been submitted to HMR&C for the ten months to 31<sup>st</sup> October 2017. We suggest that VAT reclaims are prepared and submitted to HMR&C for the five months to 31<sup>st</sup> March 2018 without delay and then half yearly thereafter.

### ***Conclusions and Recommendations***

***We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.***

## **Assessment and Management of Risk**

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition. We have: -

- Noted from our examination of the current year's minutes that updated revisions to Risk Assessment Registers for 2017-18 were approved by the Resources and Procedures Committee in April 2017 and subsequently ratified by Full Council;
- Examined the arrangements in place for the regular inspection of playgrounds and playing fields noting that this is done on a regular basis. Bearing in mind that there is no statute of limitation on time for a claim against a Council in the event of an injury sustained on Council play equipment) we recommend that such inspection should be done on a weekly basis with a formal record of the outcome being maintained indefinitely in accordance with Health & Safety legislation; and
- Examined the Council's current year's insurance policy schedule which is effective until 31<sup>st</sup> May 2018 and which continues to be provided by Zurich Municipal, to ensure that appropriate cover is in place. We note that Public Liability remains at £15 million, Employer's Liability remains at £10, million, Fidelity Guarantee stands at £500,000 and Business Interruption is in place at £12,000.

### ***Conclusions and Recommendations***

***We recommend that inspection of playgrounds and playing fields should be done on a weekly basis with a formal record of the outcome being maintained indefinitely in accordance with Health & Safety legislation***

***R2. We recommend that inspection of playgrounds and playing fields should be done on a weekly basis with a formal record of the outcome being maintained indefinitely in accordance with Health & Safety.***

## Budgetary Control & Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure. We have,

- Noted that members receive periodic monthly reports containing full detail of all receipts and payments, together with account balances, detail being based on the Omega accounting software data;
- Further noted that these reports are available on the Council website;
- Also noted that a detailed budget exercise was undertaken and approved by Council at its meeting on 15<sup>th</sup> January 2018; and,
- Reviewed the level of retained funds at the year-end, assessing their adequacy to meet the Council's ongoing revenue spending requirements and future development aspirations. At 31<sup>st</sup> March 2018, the Total Reserve balance stood at £140,121 which includes Earmarked Reserves of £42,000. The balance of General Reserves at £98,121 equates to just over four months average revenue expenditure and is just above the CIPFA guidelines of between three and six months expenditure.

### *Conclusions*

*We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation*

## Review of Income

The Council receives very limited income in addition to the precept, primarily from hall lettings, minimal bank interest (in the current economic climate), occasional grants / donations and periodic VAT recoveries.

Our objective is to ensure that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where applicable) appropriately with recovery effected within a reasonable time span.

We note that Hall booking fees were last reviewed in March 2018 and remind Members of the requirement in regulation 9.3 of the NALC model Financial Regulations that fees and charges should be reviewed at least once annually.

We have at our second visit reviewed the Hall bookings for the month of October 2017 from the issues of invoices to the receipt and banking of the relevant fees. Other than two minor discrepancies which are being investigated there were no issues in this area.

### *Conclusions and Recommendations*

*We remind Members of the requirement in regulation 9.3 of the NALC model Financial Regulations that fees and charges should be reviewed at least once annually.*

R3. *We remind Members that fees and charges should be reviewed at least once annually*

## **Petty Cash Account**

The Council does not operate a petty cash account, any “out-of-pocket” expenses incurred by officers or members are reimbursed through the normal suppliers’ payments procedures.

We note that Council has a Debit Card. Payment is pre-authorised by two Councillors and copies of authorisation kept on file. We are pleased to report that VAT is recovered (if applicable) when payment is charged to the bank account.

### ***Conclusions***

***We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.***

## **Review of 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 HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme in relation to the banding rates of deduction. To meet that objective, we have: -

- Noted that the promotion of the current Clerk and the appointment of the replacement Assistant was minuted but the relevant spinal points and hours were not specified;
- Further noted that the 1<sup>st</sup> April pay rises were approved at the Personnel Committee meeting of 10<sup>th</sup> April 2017 (minute PER 17/6 refers);
- Also noted that the Council did not currently have a Staff Establishment List; we understand that this will be submitted for approval to the Annual Council meeting in May 2018;
- Confirmed that processing of the Council’s monthly payroll has continued to be outsourced to J&M Payroll Services;
- Checked and agreed the staff and members’ PAYE Tax Codes and National Insurance Deduction Tables;
- Checked and agreed that the appropriate LGPS salary banding deduction rates are being applied for the current year in accord with the revised scales;
- Checked and agreed detail of the salaries and wages paid to, and deductions made from, the Council’s staff by reference to the September 2017 payroll documentation provided for our review; and
- Checked and agreed the net amounts due from the payslips to the electronic payment schedule and subsequent cashbook transactions.

We note that overtime sheets for both the Clerk and members of staff are not signed off and recommend that the Chair signs off any overtime worked by the Clerk and Clerk signs off overtime sheets in respect of Members of Staff.

### ***Conclusions and Recommendations***

***We recommend that Council formally adopt a Staff Establishment List quantifying the Spinal Column Point applicable to each member of staff. We also recommend that the appointments of the Clerk and Assistant reflecting the appropriate spinal points and hours relating to their employment be retrospectively minuted. Finally, we recommend that the Chair signs off any overtime worked by the Clerk and Clerk signs off overtime sheets in respect of Members of Staff.***

*R4. The Chair should sign off any overtime worked by the Clerk and the Clerk should sign off overtime sheets in respect of Members of Staff*

## **Review of Fixed Assets**

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We note that the Council maintains an Asset Register.

We reported at the final audit visit for 2016/17 that the figure reported in the Annual Return had been provided by the external accountants appointed to prepare the Annual Accounts and Annual Return but noted that the figure used by them does not agree to the total of the asset register maintained by the Council, the difference being in excess of £80,000. We understand the previous Clerk confirmed that the Asset Register maintained by the Council had not been updated and recommend that this difference be identified.

### ***Conclusions and Recommendations***

***We recommend that the difference between the figure of fixed assets provided by the external accountants and included in the Annual return and the figure of fixed assets prepared by the Council be identified. We have verified that the figure of assets as reported by the external accountants has been accurately reported in the year's AGAR.***

*R5. The difference between the figure of fixed assets provided by the external accountants and the figure of fixed assets prepared by the Council be identified.*

## **Investments and Loans**

Our objectives here are to ensure that the Council is investing "surplus funds", be they held temporarily or on a longer term basis, in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

### ***Conclusions***

*The Council has no specific investments or term deposits: any “surplus” funds are held in the Tracker and Base Rate Reward accounts at Barclays plc, detail of which we have checked and agreed as detailed earlier in this report.*

## **Statement of Account and AGAR**

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council’s financial affairs.

We have reviewed the Statement of Accounts and AGAR detail prepared, as generated from the accounting software by DCKB, with no obvious errors or anomalies in the detailed content

### ***Conclusions***

*No issues have been identified in relation to the verification of detail in the Statement of Accounts and AGAR this year.*

*On the basis of our detailed work during the course of the year on the Council’s systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the AGAR, we have signed off the Internal Audit Report of the AGAR assigning positive assurances in each relevant area.*

## ACTION PLAN

Rec. No.	Recommendation
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### Maintenance of Accounting Records and Bank Reconciliations

R1	Council staff should be more prudent when dealing with telephone calls purporting to be from the Council bankers.
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### Assessment and Management of Risks

R2	We recommend that inspection of playgrounds and playing fields should be done on a weekly basis with a formal record of the outcome being maintained indefinitely in accordance with Health & Safety requirements.
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### Review of Income

R3	We remind Members that fees and charges should be reviewed at least once annually
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### Review of Salaries

R4	The Chair should sign off any overtime worked by the Clerk and the Clerk should sign off overtime sheets in respect of Members of Staff.
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### Fixed Assets

R5	The difference between the figure of fixed assets provided by the external accountants and the figure of fixed assets prepared by the Council be identified.
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