

Keith Robertson Internal Audit Services

BREDE PARISH COUNCIL

Internal Audit Report 2019-2020

Introduction

In accordance with the Internal Audit Plan, Controls and Procedures have been tested. The tests were to the standards and practices defined in the Governance and Accountability for Smaller Authorities 2019 and meet the needs of the Council. I confirm that I do not have any role within the Council and have carried out my duties without bias.

The audit was completed on 12th June 2020 on a remote basis using video link and file sharing with the Clerk. The audit confirmed that the financial management and internal controls are adequate with no significant or high-risk issues that require noting on the annual return. There are some improvements needed and the report below highlights the findings of the audit with reference to the Internal Control Objectives and Governance Statements in the Annual Return.

It is noted that the current Clerk/RFO joined the Council in November 2019 with no handover from the prior Clerk and without access to many of the Councils documents. This presented several problems particularly as the budget 2020-21 process had been started without the assistance of a Clerk. There were also issues with the availability of accurate accounting documents and that Covid-19 followed in the new year.

The Clerk and the Council are aware that some of their processes and controls need further work and they have made significant progress since November 2019. The controls in place now while adequate are not good but do not present a significant risk to the Council at this point. I have reported as such on the AGAR for 2019-20 and noted in the report below where further progress is needed.

Items requiring attention in the 2018-19 audits

Internal Audit

- **Invoices to be approved and signed at the same the time as cheques are signed.** The Council did address this but not formally and not until the new Clerk took office in November. Invoices are now approved at the same meeting that cheques (also now bank transfers) are signed and this is recorded in the minutes. The invoices are still not initialled as seen but the Clerk confirmed that this will happen from now on.
- **Bank reconciliations to be presented and signed at meetings.** Bank reconciliations are presented and minuted as approved but the bank recs are not initialled as approved by a Councillor. The Clerk confirmed that this will happen from now on.

External Audit

- Noted that the Governance statement Section 1 box 7 was not completed by the Council for 2018-19 and so did not confirm if the Council had considered the comments of auditors from the prior year and that as a result Boxes 2 & 6 are to be confirmed by sources other than the 2018-19 Internal Audit. The Clerk has since Nov 2019 reviewed these comments and has improved controls.
- Noted that the 2018-19 Internal Auditor did not confirm box K on the audit report concerning limited exemption. This will be properly confirmed in the 2019-20 audit.

On this basis I have concluded that the Council did in 2019-20 take account of the audit reports from 2018-19 and while there is still progress to be made the changes required have been identified and actioned and I would not challenge a YES in Section 1 Box 7 of the 2019-20 return.

Internal Audit Review 2019-20

A. Appropriate Accounting Records.

A.1 The cash book is held in Excel and is kept up to date. The Excel spreadsheet does record the basic information but is not of a good quality and requires some additional manual work to confirm that the ledger agrees to the financial reports and the bank reconciliations. The ledger does however agree to all the end of year reports. The cash book(s) does therefore fulfil the basic requirements and warrant a positive response to Box A on the internal audit report. **The Clerk will improve the cash book to include all bank accounts, All R&P and amend it to automatically agree with other reports and provide a robust and clear audit trail in 2020.**

B. Financial Regulations, documentation and approvals.

B.1 The Standing Orders were updated in June 2019 and the Financial Regulations in October 2019.

B.2 Expenditure Approval. All of the items chosen in the sample of payments from the cash book were supported by invoices and VAT was correctly accounted for. The invoices were not initialled to confirm seen by Cllrs but these will be initialled as seen as soon as face to face Council meetings resume. Expenditure authorisation is minuted and refers to payments detailed in the minutes.

B.3 Agendas & Minutes are sent out in time are well presented.

C. Risk Assessment

C.1 A formal risk register is held but does not cover all risks. There is however evidence that safety checks in outdoor areas (Playground equipment, Trees) while not logged in the register do take place. **It is recommended that the Council adds areas to the risk register.**

C.2 Internal Audit Effectiveness. The Clerk and the Council are aware that while adequate there are improvements needed and will consider further reviews and training where needed in 2020.

C.3 Insurance – The Parish Council's Insurance cover is in total adequate to cover asset values listed in the asset register but it was not possible to reconcile individual asset values to the insured value. **This does present a low risk and the Clerk will review this in 2020.**

D. Budgeting & Precept

D.1 Budgetary Control – The annual budget prepared in support of the precept for 2020-21 was completed during the period of changeover of Clerk. The process used to evaluate the budget spend and precept required was basic but, in the context, adequate and does not present any significant risk to the Council. The Clerk is aware of this and will improve the process for future forecasting and budgeting. It is noted that the Council did review the budget and did approve a precept and that this is in the minutes. Improvements are needed to:

- **Ensure actual Prior Year and Current YTD data when used agrees with the cash book**
- **VAT is excluded from budgeted spend.**
- **All Receipts and Payments and reserve movement are included in the budget.**
- **In broad terms a 3-year R&P forecast is considered (Per the Financial regulations).**

D.2 Reporting. Actual expenditure is reported and is compared to the budget but this only represents R&P for one of the Council's bank accounts. **Reports must include all R&P and reserve movements.** The improvements noted in A above will help to achieve this.

D.3 **Reports vs budget must exclude VAT but be reconciled to include all R&P including VAT.**

- D.4 Monthly reports given to Councilors show only the movements for the month but must also (quarterly) show YTD R&P actual vs budget**
- D.5 Income – The precept recorded in the minutes agrees to the Council Tax authority's notification.
- E. Receipts**
- E.1 Income primarily from the Precept and CIL and is received by bank transfer.
- F. Petty Cash** – There is no petty cash system operated with no petty cash held.
- G. Employee Costs**
- G.1 Staff Wages – The Clerk prepares the payroll. The Clerk is the only employee.
- G.2 The Clerk does not currently have a signed contract but this will be presented for approval at the June PC meeting.
- G.3 Salary and NHI/Tax payments are presented to Councilors along with a list of payments for approval at Council meetings with the relevant printed documents from the payroll system. These documents will be initialled as seen as will be all supplier invoices. Samples for payments reviewed in this audit were correct.
- H. Assets**
- H.1 Assets – An Asset register is maintained. The cost values logged in the register agree with the AGAR and correctly include asset purchases in the period. Insurance values stated on the register broadly agree to the policy schedules. It is noted that insurance for the Village Hall is a separate PC policy and is insured because the Council is the custodian trustee of the building. **Asset insured values on the register need to be reconciled to the Policy.**
- I. Bank Reconciliations.**
- I.1 Bank Reconciliations are completed on a monthly basis and are correct and so are compliant with the requirement for Box I on the Internal audit page 2019-20. Reconciliations are presented to the Council on a monthly basis and are minuted as approved **but the approval controls are not adequate because** statements are not presented to Council with the reconciliation and the reconciliations are not initialled as seen. This means that the approval cannot be relied on as the statements are not confirmed to agree to the reconciliation. **This could present a significant risk and must be changed for review at the June meeting with at least once Councillor reviewing the reconciliation with the statement (or via on-line banking) and confirming approval of the reconciliation.**
- J. Accounting Statements.**
- J.1 The accounts are maintained on a receipts and payments basis and agree (with some manual work) to the financial reports and the Annual Return.
- J.2 There is an audit trail through the financial records with all items sampled being properly reported and approved.
- J.3 Reserves total £78.3K. Earmarked reserves are £31.5K detailed by project with general reserves being £46.8K the totals reported agree at year end to the financial records. Reserve reporting does need to be changed to ensure reserves reported during the year also reflect the balances in the accounts and the Clerk will do this for 2020-21 reporting.
- K. Limited Assurance Review Exemption.** The Council did not exempt itself in 2018-19
- L. Exercise of Public Rights.** The website has no AGAR documents or Notice of Public rights published after 2015. The Clerk confirmed this was not published correctly for the 2018-19-year end. **The Council should therefore declare NO to Section 2 Box 4 of the 2019-20 AGAR.**

M. Trust Funds. The Council is understood to be a Custodian Trustee of the Village Hall and does not manage or is involved with any trust funds or the management of the Hall. It performs its duties as custodian trustee correctly but can answer NA to Box M as this refers only to funds managed as a trustee.

It is noted that the figures have been produced by the Clerk in accordance with the requirements and all supporting documents have been produced for the Internal Auditor. The Clerk's co-operation aided considerably the work of this internal audit. Thank you.

Keith Robertson FCMA
Internal Auditor
12th June 2020