

# Keith Robertson

## Internal Audit Services

### WARBLETON 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 during several calls and on line meetings in June and July to establish data that could be audited with a final audit meeting to consolidate and assess the findings on 9<sup>th</sup> July 2020 remotely by video conference.

##### **Background**

The prior clerk resigned in Jan 2020 and the Chairman resigned in March 2020 which resulted in many of the Council's financial and administrative documents, including the cash book for 2018-19 and 2019-20 not being available for this audit. It was also apparent that the Council had not produced, approved or reported an AGAR for at least 2 years. This loss of data complicated the checking of many of the processes and controls but with the help and considerable efforts of the Clerk(s) and members of the Council a reasonable assessment of the controls has been possible and I have been able to assess the Council for the purpose of an Internal Audit.

The Council appointed a locum Clerk in January 2020 and a permanent Clerk/RFO in March 2020. The cash book for 2018-19 and 2019-20 was reconstructed (completed in July 2020) by the Locum Clerk with help from the Chairman of the Finance and General Purposed Committee (FGPC) using bank statements and supplier payment records available. The audit was therefore difficult because source documents, cash books and reports that existed during 2019-20 and at the point that the Council was carrying out its duties were no longer available. My conclusions are based on the evidence gathered from original source documents that were available (including the minutes and monthly financial statements) and from the reconstructed cash books.

The audit confirmed that the financial management and internal controls during 2019-20 were mostly adequate or good with some controls inadequate.

The report below highlights the findings of the audit with reference to the Internal Control Objectives and Governance Statements in the Annual Return.

##### **Items reported in Audits from 2018-19**

**External Audit** – Letters received from the external auditor confirm that the 2018-19 AGAR was not reported and that the Council did not exempt from the limited assurance review in 2017-18 or 2018-19 and did not publish accounts.

**Internal Audit** – No audit report available for review.

##### **Internal Audit Report 2019-20**

###### **A. Appropriate Accounting Records.**

- A.1 There are no original cash books prior to 1 April 2020. The cash books were reconstructed as at 31 March 2020. The cash books are complete and balance and do present the information that is compliant with proper book keeping. The Council has managed to produce a viable and accurate cash book as at 31 March 2020 and there is strong evidence that if the records had not been lost the cash books and financial records would have been in good order.

The minutes detail the approval of payments and these agree (on a sample basis) with the reconstructed cash books. The FGPC with the Chairman of that committee reviewed monthly financial statements and the Chair presented these results to the full Council all of which is recorded in the minutes. The financial statements do not agree exactly (each month) to the reconstructed cash books and in early months there were some issues with the reporting of VAT but these do agree to the cash books for the full year. The audit test is, were the financial records appropriate during the accounting period? That cannot be definitively proven because those records are lost but given that the cash books have been re-constructed and do balance, that they agree with the minutes and that cash books and accounting records must have been maintained during the year to enable the financial statements to be produced and that these statements do essentially agree to the new cash books I conclude that this is reasonable evidence to confirm for the purpose of this audit that **in 2019-20 the council did meet control objective A.**

## **B. Financial Regulations, documentation and approvals.**

- B.1 New Standing orders and Financial regulations were adopted on 5 March 2020. The minutes from Oct 2019 indicate there were some issues raised regarding the application of the standing orders and that some issues may have carried forward from 2018-19. I have not had sight of the old SO & FR prior to March 2020 but the Council confirmed that the old regulations were not appropriate and so adopted new SO & FR in March 2020 which are closely aligned to the NALC standards.
- B.2 Agendas & Minutes. A review of the minutes in 2019-20 confirms that the agenda and minutes were in good order except that while there is an agenda calling members to an Annual Meeting in May 2019 there are no minutes to record what was agreed including the election of a Chairman or the review of the accounts for 2018-19 or the approval of an Annual Return. It is noted that minutes of the Annual meeting in May 2019 have since been reconstructed by the locum Clerk but these are based on recollection and by a Clerk and Chairman who were not present. The reconstructed minutes also do not record the approval of any accounts or an Annual return. I do not consider these minutes as valid for the purpose of this audit.
- B.3 The minutes during the year show that payments were properly listed and authorised for payment by the Council.
- B.4 The minutes record some challenges over the proper reporting in the minutes of the application of CiL funds. These issues were resolved during the year and while the reporting of reserves and CiL balances could be improved I am satisfied that any concerns were addressed, do not represent a significant control issues and are adequate.
- B.5 Items sampled during the audit to test proper approval of expenditure confirmed the approval process controls are good and being properly applied.
- B.6 Financial Audit regulations requires a Council to produce and approve its accounts and an Annual Return, to publish the notices of public rights, to submit the annual return for a limited assurance review or to properly exempt itself. The Council did not produce an annual return in 2018-19 or approve that in 2019-20 and did not exempt from audit or publish a notice of public rights for 2018-19.

**I conclude that the council did not meet control objective B**

**It is also noted that this conclusion does not support a positive response to the Governance Assertion 1 because the annual AGAR statements were not produced for 2018-19 and were not approved in 2019-20**

## **C. Risk**

- C.1 The Council suffered a loss of data when the outgoing clerk resigned with the effect that the cash books and other records were lost or not available which had a major impact on the Council in 2019-20. This risk was not addressed on the risk register/assessment dated 2012 and there were no mitigating actions in place to manage a data loss and recovery.
- C.2 The risk register dated 2012 while not in a format recommended by the Governance Guidelines would have been adequate if properly applied and if there was evidence of its review.
- C.2.1 In terms of application the Risk mitigation (6) in the 2012 document requires that all Councilors receive a copy of the Annual Return for approval which was not the case.
- C.2.2 The risk assessment is missing the risk and mitigation for data loss and recovery. To that extent the Council did not meet the criteria for risk management in section 5 of its governance statement: *Having identified, assessed and recorded the risks, the authority needs to address them by ensuring that appropriate measures are in place to mitigate and manage risk.*
- C.3 In terms of review there is no evidence in the minutes that the risk assessment was reviewed in 2019-20. It is noted that in July 2020 a new risk register is being produced which is likely to comply with Governance and Accountability Guidelines but this is not relevant to the audit of 2019-20
- C.4 Insurance – The Parish Council's Insurance cover adequately covers liability and some assets are insured. There is no Asset Register (as at 31-3-20) and no evidence that an AR was reviewed during 2019-20 and so it is not possible to determine if any assets owned are properly insured or not, which is a risk.

**I conclude that the Council did not meet control objective C and also should answer no to Governance Assertion 5 and consider assertion 2**

## **D. Budgeting & Precept**

- D.1 Budgetary Control – The budget for 2020-21 was approved in the minutes of Jan 2020 along with a precept of £18336. The budget reports supporting this decision details payments of £18336 but has minimally addressed income or reserves.
- D.2 The audit criteria for appropriate budget setting is “The Precept resulted from an adequate budgetary process; progress against the budget was regularly monitored and reserves were appropriate” This has been substantially met except for clarity on reserves use and I see no significant risk resulting from this process **but improvements stated below are recommended.**
- D.2.1 The budget is not clear on the treatment of VAT or Reserves. VAT is important for reconciling to cash flows but should not be in the budgeted income or spend for the purpose of setting the precept.
- D.2.2 Reserve levels (cash balances in total and the analysis of that balance in terms of general and earmarked reserves) should be clearly stated in the budget and any spend in the budget funded by reserves should be clearly stated. There were a number of references in the minutes to the application of CiL funds and the budgeting for this income, spend and reserve levels is important.
- D.3 The budget uses prior budgets as the comparator to the proposed budget. The Governance and Accountability Guidelines define that a current year forecast should be a comparator not just the prior year budget. **It is recommended that for 2020-21 the Council uses a forecast of the current year as a comparator.**

**This control has been met with some improvements recommended,**

- E. Receipts.** Receipts are primarily from the precept, CiL funds and VAT refunds and are received by bank transfer. A receipt from HMRC for a PAYE Tax refund would be more accurately reported as a credit to costs and the Council is now aware of that. There are no significant control issues in reference to receipts.

**This control has been met**

- F. Petty Cash** – No petty cash is held.

## **G. Employee Costs**

- G.1 Staff Wages – Sample checks on salary payments confirmed that these were properly accounted for and approved by the Council.
- G.2 While some payroll and employee records may have been lost these will be available if needed via the payroll bureaux supplier and via payment records.

**This control has been met**

## **H. Assets**

- H.1 Assets – No Asset register was available as at 31 March 2020.
- H.2 There is no evidence of a review of Assets in 2019-20.
- H.3 Insurance documents include cover of assets and assets are recorded on the new register being completed for 2020-21
- H.4 The Council does own some assets. These are not considered to be of significant value but the Council is still required to list and manage its assets.

**I conclude that in 2019-20 the council did not meet control objective H because it does not have an asset register but does appear to own some assets.**

## **I. Bank Reconciliations.**

- I.1 Bank Reconciliations reconstructed were seen as at 31-3-19 and 31-3-20 and are correct.
- I.2 Bank reconciliations were reported in monthly financial statements during the year. The bank statements and the reconciliation were reviewed, approved and signed by the Chair of the FGPC each month and the reconciliations were reported in the monthly financial statements.
- I.3 The bank mandates were at the year-end updated.

**This control has been met**

**J. Accounting Statements.**

- J.1 The accounts are maintained on a receipts and payments basis in an Excel spreadsheet ( new cash books). The cash book is mathematically correct and agrees to the year-end accounts and to the AGAR.
- J.2 The Accounting reports produced during the year and at year end are essentially good and properly reviewed but need some improvement to reconcile exactly to the cash book, identify VAT in the cash flow, report all R&P and show all reserve movements and balances.
- J.3 The AGAR for 2019-20 was properly produced and ready for approval.
- J.4 The Asset value on the AGAR is zero. There are no financial records or an asset register to confirm if zero is correct or if there should be a (probably) small balance. It is also plausible that while assets are not listed, they could have a zero value. This reporting in the statement is not good but presents a low control risk and it is noted that this currently being addressed by the new Clerk.
- J.5 Reserves balances while not well reported at the start of the year were as a result of a review by the Chair of the FGPC and subsequent improvements adequately reported in the last quarter and at year end. Some further improvements are advised to show all reserves and all reserve movements and balances through the year.
- J.6 There is an audit trail through the accounting records.

**This control has been met**

**K. Limited Assurance Review Exemption.**

The Council did not correctly exempt itself in 2018-19 and cannot exempt in 2019-20

**This control has not been met**

- L. Exercise of Public Rights.** The notice was not posted for 2018-19 and no AGAR or other transparency data was published.

**This control has not been met. Governance assertion 4 not met.**

- M. Trustees.** The Council is not a trustee.

Keith Robertson FCMA  
Internal Auditor

Issued 10<sup>th</sup> July 2020