



Hale Parish Council

Internal Audit 2018/19

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JDH BUSINESS SERVICES LTD

Registered to carry on audit work by the Institute of Chartered Accountants in England and Wales

INTERNAL AUDIT REPORT

The internal audit of Hale Parish Council is carried out by undertaking the following tests as specified on the Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year-end testing on the accuracy and completeness of the financial statements
- Reviewing whether the council has met its responsibilities as a trustee

Conclusion

Based on internal audit work carried out, which was limited to the tests above, in our view the council's system of internal controls is NOT in place, adequate for the purpose intended and effective. The recommendations reported in the action plan overleaf need to be implemented promptly. As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

JDH Business Services Limited

	ISSUE	RECOMMENDATION	FOLLOW UP
<p>There are a significant number of issues raised below with recommendations for action. The issues that need resolution cover almost all areas of the council business, control objectives and associated governance. Therefore, to ensure the council can effectively implement the action plan and embed the changes required, we recommend there is a period of consistency in the officer resources that will be tasked with supporting the council with implementation of the internal audit action plan.</p>			
<p>AGAR internal control objective A – Appropriate Accounting Records kept throughout financial year</p>			
1	<p>The accounting records for the year have recently been produced after the year end using SCRIBE software. We have not seen any evidence that accounting records, including a cash book, were maintained on an ongoing basis during the financial year.</p>	<p><i>The previous system for completely and accurately recording all receipts and payments transactions of the council was not fit for purpose and therefore the council should ensure a robust accounting system is used in future.</i></p>	<p>New Excel Spreadsheet already introduced for 2019/20</p>
<p>AGAR internal control objective B – Compliance with Financial Regulations, payments supported by invoices, all expenditure approved, and VAT appropriately accounted for</p>			
2	<p>There were no adopted Financial Regulations in place during 2018/19 nor any other document evidencing any adopted internal control procedures.</p> <p>Standard Financial Regulations require a council to obtain, where required, a borrowing approval when obtaining a loan. There was no information in the books and</p>	<p><i>The council should adopt NALC model Financial Regulations which have been aligned to the council scope and activity, including appropriate regulations for procurement and online banking.</i></p> <p><i>The council should always consider whether a borrowing approval is needed before undertaking any form of loan.</i></p>	<p>New Financial Regulations introduced minute number 9 meeting of 17th June 2019</p> <p>Noted – documentary evidence will be kept available should similar occur in the future.</p>

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	records presented for audit whether a borrowing approval had been considered for the £20000 loan with the principal council.		
3	We were informed that the bank account has been controlled by the Chairman and the previous clerk could also make payments on their own during 2018/19. Therefore, the requirement that all transactions are authorised by a minimum of two members has not been in place. The system in place in 2018/19 meant that any one of two individuals could withdraw any quantity of council funds.	<i>The council need to urgently change internet banking controls to ensure two members can authorise every payment</i>	It was resolved to move to Unity Trust Bank who have a dual authorisation online facility which meets lawful requirements. This will be done asap however in order to continue business in the short term the existing arrangements will have to remain for a short timespan
4	The Chairman also has control of the Debit Card and can make payments without recourse to council. There are no FRs in place setting the control procedures for the use of the Debit Card. including setting a maximum transaction limit, authorising procedures for payments, and a maximum monthly and annual limit.	<i>Financial Regulations must be adopted that also set internal controls over the use of the council Debit Card. These controls should ensure there is a transaction limit placed on the card as well as a monthly and annual limit. All Debit Card payments should be approved by council.</i>	Scoping for the use of a pre-paid card with a limit is being looked at by the Clerk
5	Payments authorisation testing: - The November payments schedule is not signed by members as	<i>All payment schedules approved by council should be signed.</i>	Noted and to be introduced. Financial Regulations now allow for payments between meetings with details provided back to Council at following meeting.

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	<p>evidence of authorisation</p> <ul style="list-style-type: none"> - No minutes were available for the period between November 2nd, 2018 and 25th March 2019. Therefore, there is no evidence any of the payments between these periods were authorised by council. In addition, no payments were approved in the March 25th, 2019 meeting - Minutes are loose leaf with no annual sequence of numbering; therefore, the Chair should have initialed every page of the minutes rather than signing the last page of the minutes. - The references recorded on vouchers do not correlate with the Scribe voucher references which are also written against the bank statements. Therefore, there is a limited audit trail from vouchers to the ledger or bank statements. 	<p><i>All payments should be put to council for approval and a complete record of all signed minutes should be retained.</i></p> <p><i>Every page of loose-leaf minutes should be initialed by the Chair.</i></p> <p><i>The audit trail should be improved by recording the SCRIBE transaction number on the invoices/vouchers</i></p>	<p>Minutes will be retained as lawfully required and each page initialed by the Chairman with the last page being signed.</p> <p>New Excel spreadsheet will show date payment, minute number and payment number of invoices, the latter two transcribed to the actual invoice.</p>

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6	<p>Internal vouchers are regularly used as a substitute for a third-party voucher, invoice or confirmation of receipt. For example, the following higher value payments were not supported by any third-party voucher/invoice or confirmation of receipt:</p> <ul style="list-style-type: none"> - Transaction 20 £1200 payee St Marys Church - Transaction 21 £20116 payee Halton Borough Council (loan repayment) - Transaction 52 £5000 Hale village hall - Transaction 89 £776.3 Tommy Figure - Transaction 124 £1500 Hale Village Hall <p>Transaction 53 for £1075 is for the purchase of a noticeboard by is supported by a handwritten note on the back of an event flier.</p>	<p><i>The council should secure invoices/vouchers from suppliers or confirmation of receipts to support donations.</i></p> <p><i>The council should secure a formal invoice as evidence from the supplier of the noticeboard for transaction 53</i></p>	<p>Noted and will be introduced with immediate effect.</p>
7	<p>Hotel accommodation costing £459 has been booked on Expedia for a course, however, only the Expedia receipt is provided, and the VAT has been analysed as reclaimable in SCRIBE. Expedia is merely the agent and the hotel provides the</p>	<p><i>When using online agents to book hotels, VAT invoices should always be secured from hotels when checking out.</i></p>	<p>Noted and will be introduced with immediate effect</p>

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	services; therefore, the hotel should have been asked to provide the VAT invoice for the supply. Without this invoice, the VAT will not be reclaimable.		
8	We could not locate any service level agreement (SLA) or contract with Williams Stephens for lengthsman grounds maintenance works. It is not clear whether this a self-employment contract or whether this should be paid under an employment contract.	<i>A formal SLA should be established for grounds maintenance services if the service provision is from a business, rather than an individual who should be employed under an employment contract.</i>	All future employees or service contractors will have appropriate documentation to handle payments correctly.
9	There is evidence that the council has not been paying creditors on a timely basis with the result that bailiffs had attended the premises due to long overdue water charges. In addition, transaction ref 158 incurred a late payment interest charge.	<i>Creditor payments should be made on a timely basis.</i>	Action now taken with immediate effect to have payments made on a timely basis with Financial regulations setting out rules for payments between meetings.
AGAR internal control objective C – Adequate Risk Assessment			
10	We could not identify in the minutes or the information provided for internal audit any adopted comprehensive risk assessment.	<i>A comprehensive risk assessment should be established and then reviewed, updated and approved each financial year.</i>	This is to be done asap
11	Data protection risks: We could not identify an annual payment for data protection registration to the ICO	<i>The council need to urgently carry out a GDPR data audit and establish the required policies and procedures to help ensure compliance.</i>	

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	<p>in the payments cash book. The council is a data controller and therefore must be registered as such with the ICO. There is no evidence that any action has been taken to ensure compliance with the GDPR, for instance:</p> <ul style="list-style-type: none"> - We could not identify an external and internal privacy notice - No data protection policy was adopted in 2018/19 - No evidence that Subject Access Request and Data Breach procedures compliant with the GDPR had been adopted - No evidence data processing/sharing agreements have been established with relevant third parties - No evidence a document retention policy has been adopted 		<p>This area is to be looked at asap</p> <p>Registration with ICO be undertaken and appropriate policies etc re GDPR to be introduced.</p>
AGAR internal control objective D – Precept request resulted from adequate budgetary process, regular budgetary control and appropriate levels of reserves held			
12	<p>The budget set for the financial year does not take into account of 'an amount that the council estimates will be appropriate to meet future estimated expenditure' (ie to</p>	<p><i>The council should ensure when setting the precept that the budget requirement is calculated in accordance with the Local Government Finance Act 1992 by taking into account:</i></p>	

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	hold in reserves). This is a requirement of the Local Government Finance Act 1992.	<ul style="list-style-type: none"> - <i>all expenditure estimated to be incurred in the year</i> - <i>an allowance for unforeseen expenditure – this could be linked to a variation in inflation expectations</i> - <i>an amount that the council estimates will be appropriate to meet future estimated expenditure (ie to hold in reserves or to replenish general reserves in accordance with a reserves policy)</i> - <i>the amount estimated by the council to meet expenditure relating to previous financial years that has not already been provided for (creditors and accruals and other liabilities)</i> 	New budgetary arrangements will be introduced taking into account need for adequate reserves
13	The level of reserves has increased to £6235 from negative levels at the end of 2017/18, however, the levels are still lower than the sector guidance for local councils, which is between 25% and 100% of the precept or net operating expenditure.	<i>General reserves should be replenished to at least the minimum levels recommended by sector guidance, ie 25% of the precept.</i>	See above
14	There is no evidence of any budgetary control reporting and monitoring during the financial year. Considering the	<i>Regular budgetary control reporting needs to be implemented promptly by the council.</i>	Internal Control systems to be introduced

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	negative reserves position brought forward we would have expected the council to be extra vigilant, with budgetary control monitoring carried out more regularly than normal due to the critically low levels of funds.		
AGAR internal control objective E – Expected income fully received, correctly priced, recorded and promptly banked and VAT accounted for			
15	<p>VAT issues:</p> <p>No VAT reclaims received during 2018/19 and no evidence a 2018/19 VAT return has been submitted to HMRC.</p> <p>VAT income of approximately £89k was reclaimed in 2017/18 but there was no evidence in the book and records presented for internal audit that the council had secured VAT advice as to whether any or all of the VAT was reclaimable. The VAT relates to the hall building and the hall primarily provides VAT exempt hall hire services which means there the partial exemption VAT threshold should be a consideration.</p>	<p><i>VAT reclaims should be submitted to HMRC on a timely basis.</i></p> <p><i>The council should request the SLCC specialist VAT adviser to review whether the council was able to reclaim some, or all of the VAT associated with the hall building scheme.</i></p>	SLCC advisor to be contacted for opinion.

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AGAR internal control objective G – Wages and salaries and members allowances paid in accordance with council approvals, and PAYE and NIC requirements properly applied			
16	Information was provided to evidence that PAYE and NIC requirements had been properly applied and a payroll agent is used. However, we were informed by the acting clerk that salaries had in some cases not been paid on a timely basis during the financial year. We also identified documentation evidencing there had been late payment of payroll taxes due to HMRC in the year.	<i>Salaries should be paid on a timely basis and payroll taxes should be remitted to HMRC within deadlines.</i>	This has already been addressed and procedures put in place
AGAR internal control objective H – Asset and investment registers complete and accurate and properly maintained			
17	The value for fixed assets in the AGAR annual return is last year's figure. The fixed asset register provided only has values attached to some items and there is no total. A cast of the actual figures included does not agree to the fixed asset value included in the AGAR annual return	<i>The fixed asset register needs to be completed with values recorded against the assets listed, even if that value is £nil, and the correct asset figure included in the AGAR annual return.</i>	Cllrs Cleary and Wright are undertaking this and have noted need for urgency s that insurance arrangements are adequate.
18	The asset register is in WORD format and contains limited information to support effective management of the assets and accurate disclosures in the year end accounts: <ul style="list-style-type: none"> • there is no date of acquisition 	<i>The asset register should be compiled in a spreadsheet with the headings as described included</i>	Noted and to be set up as per 17 above

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	<ul style="list-style-type: none"> disposals are not evidenced custodian of the asset is not stated the location of the asset is not provided as the document is in WORD format it cannot be automatically cast as in a spreadsheet, there has been no review of capital expenditure in 2018/19 to identify any additions (and disposals) for the asset register 	<i>Capital expenditure in 2018/19 should be reviewed to identify any additions. Items disposed of and obsolete items should be removed from the register at carrying value.</i>	
AGAR internal control objective I – Periodic and year end bank reconciliations were properly carried out			
19	<p>Although a year end bank reconciliation has recently been carried out in the SCRIBE accounting system, no complete and accurate bank reconciliations were carried out during the financial year and reported to council. The year-end bank reconciliation balances to the SCRIBE system cash book, however, when we reviewed the SCRIBE transactions, we identified a £15.31 unreconciled difference – see issue below.</p>	<p><i>Complete and accurate bank reconciliations should be prepared and presented to council regularly during the financial year.</i></p> <p><i>The £15.31 unreconciled difference (see issue below) should be investigated by council.</i></p>	<p>New Excel Spreadsheet will replace Scribe</p> <p>It was resolved that on the basis of cost/benefit this small amount should be written off</p>
AGAR internal control objective J – Accounting statements were prepared on correct accounting basis, agreed to cash book, and were supported by an adequate audit trail			

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20	There is an imbalance in the SCRIBE accounts as the final transaction of the year of £15.31 (transaction number 164) is described as an error adjustment and there is no voucher to support this 'expenditure'	<i>The council should check every transaction recorded in SCRIBE against the bank statements to identify the error(s) that relate to the £15.31 unreconciled difference and make correcting adjustments.</i>	Written off as above
AGAR internal control objective M – the council met its responsibilities as sole trustee			
21	<p>The village hall is owned by the council and a village hall committee has been established to manage the hall. The trust deed indicates the council are custodian trustees of the hall but appear to be acting currently as sole trustee as there are no non councilor trustees currently.</p> <p>In 2018/19 there have been no meetings of the trustees of the council and returns to the Charity Commission are overdue. The council manages the income and expenditure and bank account for the charity.</p> <p>The council authorises expenditure by the trust as part of council meetings. In addition, during the financial year the council paid for village hall payroll costs</p>	<i>The council need to ensure it is meeting its responsibilities as a trustee.</i>	<p>Clarification now being sought from National Lottery</p> <p>Professional advice from ACRE</p> <p>Outcome of above with inform position going forward</p>

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	and other costs due to a lack of funds in the village hall account.		
Other Issues			
22	Internal and external issues and recommendations reported previously have not been implemented.	<i>All internal and external audit reports should be presented to council and an action plan implemented on a timely basis in response to issues and recommendations raised.</i>	Noted Now to be addressed as part of this action plan
23	A committee structure has been established but the acting clerk has been unable to locate all agenda and minutes for all council committee meetings. Record keeping of key council documents is therefore inadequate.	<i>A complete and accurate signed record of all council and committee meetings should be retained.</i>	A new way of working using working groups rather than Committees will save need for formal agenda and minutes and streamline the operation of the Council to concentrate on what it wishes to achieve.
IMPORTANT GUIDANCE NOTE INTERNAL AUDIT CERTIFICATE in the AGAR <p>There is a new internal control objective (Objective L) in the 2018/19 internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the previous Summer was compliant with the Regulations. This is pre-filled for 2018/19 but in order to test this and conclude YES or NO for the 2019/20 internal audit we would need to receive with the 2019/20 books and records:</p> <ul style="list-style-type: none"> - A copy of the completed 2018/19 Notice of Public Rights and Publication of the Unaudited Annual Governance and Accountability Review 			

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	<ul style="list-style-type: none">- A dated photograph showing the first day of the Notice of Public Rights on the noticeboard and/or a dated computer screenshot showing the first date of the Notice of Public Rights on the website for 2018/19 <p>Our approach to this new requirement will be to conclude NO if we have not received the above evidence and explain on the AGAR that we received insufficient evidence to be able to conclude YES; we would also conclude NO if the dates advertised were not compliant with the Regulations.</p> <p>This will be a new ongoing requirement for internal audit, as well as verifying whether certain smaller councils meet the exemption criteria from an external audit. Therefore, for the 2019/20 internal audits there will be additional time charged at a fixed fee of £9 + VAT per local council to complete the new requirements.</p>		