

Report to Ramsey and Parkeston Parish Council

The Internal Audit of the Accounts for the year ending 31 March 2019

1. Introduction and Summary

1.1 The Internal Auditor for the 2018/19 year was formally appointed by the Council at its meeting on 17 February 2019 (Minute 19a refers). Terms of Reference and an Audit Plan were issued to the Council's Clerk and Responsible Financial Officer (RFO), Ms. Lin Keating, on 27 April 2019 and it was agreed that the Internal Audit would commence from 11 May 2019.

1.2 Internal Audit examined the effectiveness of the governance and internal control arrangements operating within the Council, including the adequacy of the financial administration and control in place.

1.3 The Accounts for the year confirm the following:

Total Receipts for the year: £95,918.79
Total Payments in the year: £98,939.01
Total Reserves at year-end: £75,674.37

1.4 The Annual Governance and Accountability Return (AGAR) to the External Auditors was examined and the following figures agreed with the Clerk/RFO for inclusion in Section 2 (rounded for purposes of the Return):

<i>Balances at beginning of year (1 April 2018):</i>	<i>Box 1: £78,695</i>
<i>Annual Precept 2018/19:</i>	<i>Box 2: £64,589*</i>
<i>Total Other Receipts:</i>	<i>Box 3: £31,329*</i>
<i>Staff Costs:</i>	<i>Box 4: £13,708</i>
<i>Loan interest:</i>	<i>Box 5: £0</i>
<i>All Other payments:</i>	<i>Box 6: £85,230</i>
<i>Balances carried forward (31 March 2019):</i>	<i>Box 7: £75,675</i>
<i>Total cash/short-term investments:</i>	<i>Box 8: £75,675</i>
<i>Total fixed assets:</i>	<i>Box 9: £216,708</i>
<i>Total borrowings:</i>	<i>Box 10: £0</i>

**Precept of £64,589 in Box 2, LCTSS Grant of £2,621 in Box 3*

1.5 Sections One and Two of the AGAR were approved by the Council at its meeting on 18 April 2019 and have been signed, dated and the Minute reference notated accordingly. Boxes 2 and 3 in Section 2 of the AGAR require amendment (as above) as the Precept only should be displayed in Box 2, any grants received should be included in Box 3. The amendment should be initialled by the Chairman and the Clerk/RFO.

(Comment by Clerk/RFO: 'Initialled amendments by both Chair and clerk at meeting held 16th May 2019, minute item 16 a').

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1.6 The Annual Internal Audit Report for 2018/19 within the Annual Governance and Accountability Return (AGAR) has been completed by the Internal Auditor.

1.7 Internal Audit's examination of the 2018/19 accounts and supporting documentation identified that there was a significant breakdown in financial control in the year of account. These matters were reported in detail to the Chairman, Vice-Chairman and the Clerk/RFO on 19 May 2019 and are summarised in this Internal Audit Report.

1.8 At a meeting held on 20 May 2019, the Chairman, Vice-Chairman and RFO/Clerk agreed that immediate action would be taken to address the issues raised by internal audit in order that effective and efficient financial control is secured and is maintained within the Council. The Clerk/RFO agreed to address the various learning points that have arisen during 2018/19. The Chairman and Vice-Chairman, on their part, agreed to provide all necessary support to the Clerk/RFO in order to ensure that the Council can move forward with confidence in its financial operations and regain the high-level of financial administration and control that is expected and demanded of a local council.

2. Proper book-keeping (examination of entries in the Cashbook, regular reconciliation of books and bank statements and supporting vouchers, invoices and receipts)

2.1 The Internal Audit identified that there had been significant salary overpayments to the Clerk/RFO in the year 2018/19; these arose following 5 separate instances of over-claiming of salary by the Clerk/RFO.

2.2 The breakdown of financial control within the Council resulted in 5 weeks of salary claimed by and paid to the Clerk/RFO in excess of the amounts due to her. The system employed in the year by the Council provided that the Clerk/RFO prepared an invoice for the salary due to her since the previous meeting. The invoice is submitted to the Council and is listed within the Internet Banking Transactions Authorisation form prepared by the Clerk/RFO. At each Council meeting the Internet Banking Transactions Authorisation form is signed by two Authorised Signatories to confirm that it is correct and to authorise electronic payments to be made.

2.3 In each of the 5 separate instances during the year 2018/19, the Clerk/RFO overstated the number of weeks for which salary was due to her. The Internal Auditor analysed the salary payments made during 2018/19 and identified that 58 weeks of salary was paid to the Clerk/RFO in the 53-week period from 16 March 2018 to 21 March 2019. Following the issue being highlighted by Internal Audit, the Clerk/RFO calculated the overpayment to be £958.32 and has advised Internal Audit that she has repaid that amount to the Council.

(Comment by Clerk/RFO: '£958.32 received in bank 15th May 2019 payment made by J Keating from joint account with L Keating').

2.4 The overpayments arose because of the submission of incorrect invoices by the Clerk/RFO and the failure of the Council to ensure that the systems of control in place were enforced. The invoices submitted by the Clerk/RFO were not adequately

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checked and verified as correct by the Authorised Signatories and accordingly the over-claims for salary payments were allowed to progress.

(Comment by Clerk/RFO: 'New procedure in process where the clerk/Chairman meet prior to Council meetings to check and sign the Internet Banking Authorisation form that holds details of payee/amounts to guarantee all are in order to take forward for 2 signatures to authorise those payments at the full meeting.

To check the correct payments are made following authorisation the clerk/Chairman will carry out a bank reconciliation at the time of meeting prior to the Council meetings.

The revised Financial Regulations reflect the new procedures').

2.5 The Internet Banking Transactions Authorisation Lists are agreed at each Council meeting and provide details of the payments due. The Lists are signed by two Authorised Signatories in confirmation that the payment can be made (payment date and bank ID reference should also be noted). The Clerk/RFO has previously been an Authorised Signatory for accounts for payment in emergency situations but was approved as an Authorised Signatory other than in emergencies by the Council at its meeting on 19 July 2018 (Minute 16 refers) due to the low number of signatories at that time.

(Comment by Clerk/RFO: 'The clerk will remain on the bank as necessary to access the internet banking system, however will not be authorised as a signatory in any circumstance').

2.6 Internal Audit's examination of the Council's Cashbook Spreadsheet and Bank Statements revealed that there were two instances of salary payments being made to the Clerk/RFO through Electronic Payments (Internet Banking) before the payment was due and prior to any authorisation given by the Council.

- a) The Council's bank statement shows that a salary payment of £990 to the Clerk/RFO for the salary due for the period 18 January 2019 to 21 February 2019 was paid by electronic payment (internet banking) to L Keating on 17 December 2018. Authorisation for the payment was not given until the completion of the Internet Banking Transactions Authorisation List at the meeting held on 21 February 2019.
- b) The Council's bank statement shows that a salary payment of £990 to the Clerk/RFO for the period 22 February 2019 to 21 March 2019 was paid by electronic payment (internet banking) to L Keating on 11 January 2019. Authorisation for the payment was not given until the completion of the Internet Banking Transactions Authorisation List at the meeting held on 21 March 2019 with a payment date of 24 March 2019 entered against the transaction.

(Comment by Clerk/RFO: 'The clerk has made a fatal error in assuming this would be accepted and has also in the past made early payments to contractors as requested to assist in the major project carried out during this financial year.

The revised Financial Regulations show that any early payment requests or payments required in an emergency between meeting dates, of any nature, are to be authorised by an email showing full details and reason to be sent to all Councillors, final authorisation will be by the Chairman by email if no objection received to the request').

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2.7 In both cases listed above the facts indicate that the salary payments were made prior to authorisation being given by the Council and that an incorrect entry was entered into the records of the Council regarding the date the payment was made. The date listed in the Cashbook fails to agree with the date the payments actually took place in the Council's bank account. The entry in the Council's records and accounts do not accurately reflect the date when the salary payments listed in a) and b) above were made. Accordingly, the Internal Auditor must record in the Annual Internal Audit Report within the AGAR 2018/19 that accounting records have not been properly kept throughout the financial year and that some salary payments to an employee were not made in accordance with the authority's agreed system of approvals.

2.8 Overall, the audit of the Cashbook proved challenging not only because of the above issues but also due to the fact that a number of duplicate payments had been made by the Council in the year and the Clerk/RFO had to ensure that the relevant sums were recovered from the parties concerned, with appropriate entries being made in the accounts.

2.9 There has been a clear and significant breakdown in financial administration and control in the year 2018/19. The Council has a number of learning points to address and the following recommendations are put forward to assist the Council in this respect:

Recommendation 1: The Council needs to urgently review the control arrangements it currently has in place for the Authorisation and Approval of electronic payments (Internet Banking) Transactions to ensure that robust controls are in place and strictly enforced to secure the financial transactions passing through the Council's accounts. The Cashbook Spreadsheet must provide an adequate audit trail that leads from the Internet Banking Authorisation Lists through to the details/date on the bank statements.

(Comment by Clerk/RFO: 'New procedures in meeting with Chair/clerk to agree payee/amounts prior to taking to council meeting for authorisation, at the same time bank reconciliation on previous months authorised payments are undertaken')

Recommendation 2: In view of the failure of Authorised Signatories to check and confirm the correctness of individual invoices being submitted with the Internet Banking Authorisation Lists, each invoice/voucher must be carefully checked, calculations verified and signed and dated by independent Authorised Signatories to confirm that all necessary checks have been made to confirm the correctness of the invoice/voucher for payment.

(Comment by Clerk/RFO: 'As recommendation 1')

Recommendation 3: In no circumstances in the future should an Authorised Signatory sign an Internet Banking Authorisation List or Cheque when the List or Cheque includes an amount payable to the Authorised Signatory himself/herself.

(Comment by Clerk/RFO: 'Reflected in revised Financial Regulations')

Recommendation 4: The Council should review its Risk Assessment documentation and construct a separate Electronic Payments (Internet Banking) Risk Assessment which should identify the risks (including overpayment of salary and irregular movement of funds within accounts) and the actions in place to mitigate the risks identified.

Recommendation 5: During the 2019/20 year the Council should undertake a full review of its systems of financial control and methods of operation and a report provided to Council detailing the review in order to provide the Council assurance that the financial control systems in place are efficient and effective and that satisfactory financial administration and control is in place for the use of public funds.

(Comment by Clerk/RFO: 'Chair/clerk to produce report following new systems running and proven - September meeting?')

2.10 The Cashbook Spreadsheet is referenced but payment dates are not included against every transaction listed in the Cashbook. Overall, the structure of the Cashbook Spreadsheet needs to be urgently reviewed by the Council in order that there is a clear audit trail and to reduce the possibility of amounts being paid through Internet Banking before approval has been given by the Council and not being easily detected.

(Comment by Clerk/RFO: 'As recommendation 1')

Recommendation 6: The following additional information should be included within the Cashbook Spreadsheet:

- a) **The Date the authorisation for payment by electronic (internet) banking was made (normally the date of a Council meeting).**
- b) **The Date of transaction by Electronic Payment (Internet Banking) to be entered in all cases.**
- c) **The Date the transaction is listed on the Bank Statement (to ensure the date is the same as item b).**
- d) **The Date that payment is made is listed in the Minutes of the Council (to ensure payment is listed in Council's Minutes and available for public scrutiny).**

(Comment by Clerk/RFO:

'The above recommendations have been reflected within the Cashbook Spreadsheet commencing 1st April 2019 and are to be copied into the next month's minutes').

3. Governance, Standing Orders and Financial Regulations (examination of Standing Orders, Financial Regulations, Tenders where relevant, appropriate payment controls including acting within the legal framework with reference to Council Minutes. Identifying VAT payments and re-claims. Cheque books, paying-in books and other relevant documents).

3.1 Standing Orders are in place; a full revision was considered and adopted by the Council at the meeting held on 3 May 2018 (Minute 7.2 refers).

3.2 Financial Regulations are in place and were reviewed and re-adopted by the Council at the meeting on 3 May 2018 (Minute 7.8 refers).

3.3 The re-claim to HMRC of £3,194.33 VAT paid in the period 1 March 2017 to 28 February 2018 was received at bank on 9 April 2018. A further VAT re-claim was submitted to HMRC on 2 February 2019 to the value of £6,677.60 and was received at bank on 15 February 2019.

3.4 The Council is registered with the Information Commissioner's Office (ICO) as a Fee Payer/Data Controller for the provision of council services under Data Protection legislation (Registration Z3600731 refers, expiring 21 April 2020). The Clerk/RFO kept the Council advised of the requirements of the General Data Protection Regulations (GDPR). Formal policies relating to Data Protection, Document Retention and Freedom of Information are in place and were considered and adopted by the Council at its meeting on 3 May 2018 (Minutes 7.5, 7.6 and 7.9 refer). The Data Protection Policy was also revised in line with the GDPR requirements applying from 25 May 2018 and adopted by the Council at its meeting on 21 June 2018 (Minute 18 refers).

3.5 The Council demonstrates good practice by maintaining a wide range of other formal policies and procedures, including a Complaints Procedure, Dispensation Policy, News Media Policy, Social Media Policy and CCTV Policy, all of which were reviewed and agreed at the meeting held on 3 May 2018.

3.6 The Council re-approved the Members Code of Conduct at its meeting held on 3 May 2018 (Minute 7.1 refers). The Council demonstrates good practice by annually re-adopting the Local Code of Conduct to formally demonstrate that the Council has a responsibility to discharge its duty to promote and maintain high standards of conduct within its area.

3.7 VAT payments are separately identified in the Cashbook to assist re-claims to HMRC. Payments made under the Local Government Act 1972 Section 137 are also separately identified (due to the annual statutory limit of such expenditure in any one year).

4. Internal Control and the Management of Risk (Review by Council of the effectiveness of internal controls, including risk assessment, and Minuted accordingly)

4.1 The Council's Statement of Internal Control 2018/19 was considered and approved by the Council at its meeting on 19 April 2018 (Minute 16 refers).

4.2 The revised Statement of Internal Control for 2019/20 was considered by the Council at its meeting on 21 February 2019; the Council approved the document and it was signed by the Chairman in confirmation (Minute 18 refers).

4.3 The Financial Risk Assessment Policy was reviewed and revised by the Council at its meeting on 3 May 2018 (Minute 7.7 refers). The Headstone and Memorial Risk Assessment was also reviewed and agreed by the Council at that meeting (Minute 7.10 refers). The Council adopted the Risk Assessment in relation to volunteers working within the Parkeston Cemetery at the meeting held on 27 September 2018 (Minute 13a refers).

4.4 The Council accordingly complied with the Accounts and Audit Regulations 2015 which require a review by the full Council at least once a year of the Council's system of internal control, including the arrangements for the management of risk, with the review suitably Minuted. However, the Council must now review the effectiveness of those arrangements in the light of the breakdown of internal controls in 2018/19 (Recommendation 5 above refers).

4.5 Insurance was in place for the year of audit. At its meeting on 27 September 2018 the Council approved the payment of the insurance renewal premium of £820.09 to Came & Company Local Council Insurance (under Hiscox Insurance Company Limited). Public Liability cover stands at £10m. The level of Fraud and Dishonesty (Employee Dishonesty) cover stands at £150,000, which meets the current recommended guidelines which provide that the cover should be at least the sum of the year-end balances plus 50% of the precept/grants.

5. Budgetary controls (Verification of the budgetary process with reference to Council Minutes and supporting documents)

Precept 2018/19: Precept of £64,589 (plus LTCSS grant of £2,621 from Tendring District Council) - Council's meeting on 18 January 2018, Minute 19 refers.

Precept 2019/20: Precept of £68,153 (plus LTCSS grant of £1,049 from Tendring District Council) - Council's meeting on 15 November 2018, Minute Part B, item 2 refers.

5.1 The precepts were agreed in full Council. The precept decision and amount for the 2018/19 year was clearly Minuted.

5.2 Regarding the Precept for 2019/20. whilst the Minutes of the Council meeting on 15 November 2018 record that the budget for 2019/20 was agreed, there is no reference in the Minutes to the actual amount of the Precept for the year 2019/20 and its formal approval (Part B referred to at Minute 15a is blank).

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Recommendation 7: Following formal approve of the Precept the Council should ensure that its decisions regarding both the approval and the amount are clearly Minuted.

5.3 Budget papers are prepared to ensure Councillors have sufficient information to make informed decisions.

5.4 Examination of the accounts and supporting documentation for the year under review confirmed that the Council prepared detailed estimates of the annual budget and of receipts and payments. At the meeting held on 18 October 2018 the Clerk/RFO presented to Council a report displaying current spend against budget and predicted spend over all departments to the year-end, 31 March 2019 (Minute 18 refers).

5.5 The estimates for 2019/20 should be used by the Council during the year to ensure effective financial control and budgetary control. It is an important measure of financial control that the Council carefully scrutinises throughout the year details of payments made in order to identify any expenditure that is significantly different to the budget agreed for the year and to obtain the reasons for the variation.

5.6 Total Reserves held as at 31 March 2019 were £75,675, which included earmarked reserves of £16,000. As at the 31 March 2019 the Council maintained sufficient reserves and contingency sums to meet, within reason, any unforeseen items of expense that may occur.

6. Income controls *(Regarding Precept and other income, including credit control mechanisms)*

6.1 Receipts recorded in the Cashbook were examined on a sample basis. It is an important measure of financial control that the Council carefully scrutinises throughout the year details of income received in order to identify any element of income that fails to reach the level stated in the budget for the year and identify the reasons for any shortfall.

6.2 Cemetery Fees are listed on the Council's website. The Clerk/RFO reported to the Council on 21 June 2018 that an up-date had been made to the website regarding Cemetery Fees (Minute 19 refers).

7. Petty Cash *(Associated books and established system in place)*

7.1 A Petty Cash system is not in use; an expenses system is in place.

8. Payroll controls *(PAYE and NIC in place; compliance with HMRC procedures; records relating to contracts of employment)*

8.1 The Internal Audit identified a significant discrepancy between the salary payments paid to the Clerk/RFO in the year of account (£13,708.32) and the amount recorded on the P60 End-of-Year Return (£10,214.96) to HMRC.

(Comment by Clerk/RFO: 'Difference of £2,535.04 less £958.32 repaid = £2,535.04; which the clerk will notify James Todd & Co once agreed with the Chair and on checking records once returned by the internal auditor').

8.2 Similarly, Internal Audit was unable to agree the actual amounts being paid to the Clerk/RFO during the year of account with the amounts listed on the payslips produced each month by James Todd and Co, the Council's outsourced Payroll Services provider.

8.3 A breakdown in the controls operating between the Council and its out-sourced Payroll Services provider led to incorrect information being provided to HMRC in respect of the amount of salary received by the Clerk/RFO from the Council. This matter is of importance because the issuing of incorrect pay slips in respect of the Clerk/RFO and the presentation to HMRC of an incorrect P60 End-of-Year Return places the Council in a highly vulnerable position in terms of its responsibility as an Employer and its responsibility to provide full and correct data to HMRC. Accordingly, the Internal Auditor must record in the Annual Internal Audit Report within the AGAR 2018/19 that PAYE was not properly applied in the year of account.

Recommendation 8: The Chairman and Vice-Chairman should arrange to meet the Council's Payroll Services Provider, James Todd and Co., in order to identify the reasons why that the company was issuing incorrect pay slips in respect of the Clerk/RFO and completed an incorrect P60 End-of-Year Return for the year 2018/19. The Chairman and Vice-Chairman need to confirm with the Clerk/RFO and James Todd and Co. that adequate systems of operation will be put in place to ensure that the Council's position is protected in this regard and that the agreed system is documented and approved by the Council.

(Comment by Clerk/RFO: The clerk believe it was live data for PAYE after speaking with James Todd & Co. and agreement with the Chair in place the clerk's salary will be divided over 12 months equally:

18 hrs x 53 @ £13.41 = £12,551.76 divided by 12 = £1045.98: a copy of the payslip showing tax due will be submitted with the clerk's monthly claim. The breakdown of Net Pay and HMRC payments will be identified on the internet banking authorisation form for payment to both parties to be made directly from the Council's account.

Holiday pay will be made in September and March following authorisation through internet banking and James Todd & Co to be notified prior to such claim.

Any overtime claim will follow the same procedures for authorisation as holiday pay and notification made to James Todd & Co prior to any payment to ensure it is reflected on the pay slip.

All the above is reflected in the new Financial Regulations and revised clerk's contract').

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8.4 The Clerk's terms and conditions were confirmed by the Council at the meeting held on 3 May 2018 (Minute 6 refers).

8.5 At its meeting on 21 March 2019 the Council noted that the National Joint Council for Local Government Services (NJC) had agreed new pay scales for 2019/20 to be implemented from 1 April 2019; the Clerk/RFO's salary as from 1 April 2019 was noted (Minute 17b refers).

9. Asset control and valuation (*Inspection of asset register and checks on existence of assets; recording of fixed asset valuations; cross checking on insurance cover*)

9.1 An Asset Register is in place and as at 31 March 2019 displayed a value of £216,708 (an increase of £2,578 over the value of £214,130 at the end of the previous year) and reflects the acquisition in the year of account of a new Badge of Office, a replacement laptop and a memorial bench.

9.2 The Register complies with the current requirements which provide that each asset should be recorded at a consistent valuation, year-on-year. Assets are displayed at original purchase cost or, where the original purchase price is unknown, at a proxy/nominal value. The total value of £216,708 has been correctly entered into Box 9 of Section 2 of the AGAR (Annual Return).

10. Bank Reconciliation (*Regularly completed and cash books reconcile with bank statements*)

10.1 The bank statement as at 31 March 2019 for the Co-operative Community Directplus Account reconciled with the End-of-Year accounts and agreed with the overall bank reconciliation.

11. Year End procedures (*Regarding accounting procedures used and can be followed through from working papers to final documents. Verifying sample payments and income. Checking creditors and debtors where appropriate*)

11.1 End of Year accounts are prepared on a Receipts and Payments basis.

12. Internal Audit Procedures (*That the Council has satisfactory internal financial controls in place and any previous recommendations implemented*)

12.1 The Internal Audit report for the previous year (2017/18) was received by the Council at its meeting on 21 June 2018 (Minute 19 refers). Points raised in the report were addressed as follows:

- a) New General Data Protection Regulations came into force from 25 May 2018 (a revised policy was agreed to reflect requirements of new legislation);
- b) Cemetery Fees as listed on the Council's website were last reviewed on 1 May 2014 (no changes in the fees have been made since that date but charges are

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considered annually; an update to the website was made to make the position clear).

12.2 The Internal Auditor for the 2018/19 year was formally appointed by the Council at its meeting on 17 February 2019 (Minute 19a refers).

13. External Audit (*Recommendations put forward/comments made following the annual review*)

13.1 The Audit Report and End-of-Year Certificate by the External Auditors, PKF Littlejohn LLP, for the previous year 2017/18 was received by the Council at its meeting on 27 September 2018 (Minute 18 refers). The Report raised no matters of concern.

14. Additional Comments

14.1 The Annual Parish Council meeting was held on 3 May 2018, within the required timeframe. The first item of business was the Election of Chairman, in accordance with the requirements of the Local Government Act 1972.

14.2 I would like to record my appreciation to the Chairman of the Council, The Vice-Chairman and the Clerk/RFO for their assistance during the course of the audit work.



Trevor Brown, CPFA

Internal Auditor

22 May 2019

