
St Mary Bourne Parish Council

Internal Audit Report 2017-18

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*For and on behalf of
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils to arrange 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 Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2017-18 financial year, which took place on 31st May 2018.

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 / AGAR. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that 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' as part of the Council's AGAR process, which requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded, based on the completion of our programme of work for the year, that the Council has failed to put in place arrangements for effective financial management during the year as it has failed to comply with its own adopted Financial Regulations and EU legislation in that it did not undertake a proper tender process, as required, for the Bourne Rivulet Project. Further, the payments made in relation to this Project were done so outside the Council's proper approval process.

We are advised by the Clerk that the Chairman managed the procurement process pertaining to the dredging of the Bourne Rivulet and, that subsequently, a contract for the works was awarded to Keith Pegden Contracting. The procurement had not been the subject of a formal tender process as required by EU legislation and the Council's own Financial Regulations.

In December 2017, and again in January 2018, the Chairman instructed the Clerk, outside of the Council's proper payment approval process, and beyond his power to do so, to make payments to Keith Pegden Contracting in relation to the costs incurred in the Bourne Rivulet project. Our findings and recommendations are detailed in the body of our report, and further summarised in the appended Action Plan.

We have completed and signed the 'Internal Audit Report', having concluded that not all the control objectives set out in that Report had been achieved within the financial year to a standard adequate to meet the needs of the Council. This has resulted in negative assertions being made the Annual Internal Audit Report 2017-18 for objective 'B': **'This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for'**; and, advise the Council that it is required to provide a negative assertion in Section 1, Box 3 of the Annual Governance and Accountability Return.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk continues to use the Rialtas Alpha accounting software to maintain the Council's financial records. Two bank accounts are in place with Lloyds TSB (Current and Business Reserve), together with a fixed term investment also with Lloyds TSB. Separate cashbooks are operated in the financial ledger for each of these accounts.

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: -

- Noted that the Council had received an unqualified audit report from the External Auditors for 2016-17;
- Agreed the 2017-18 opening balances in the Alpha software to the prior year closing Trial Balance detail;
- Verified that the financial ledger remains "in balance" at the financial year-end;
- Ensured that the cost and expenditure coding structure is appropriate for purpose;
- Checked and agreed detail in the cashbooks for each bank account to supporting bank statements for the full financial year;
- Checked and agreed detail on the year-end bank reconciliations for all accounts; and,
- Ensured the accurate disclosure of the combined cash / bank balances in the year's Annual Return.

Conclusions

No issues have been identified in this area of our review warranting formal comment or recommendation.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that a new Clerk & RFO has been appointed in FY 2017-18 and that the Clerk & RFO is a qualified accountant but has not previously acted in the role of Clerk to a Council. We further note that the new Clerk is currently undertaking ILCA training and that upon the successful completion of this course will enrol upon the CiLCA course.

We note that the Council has again reviewed its extant Standing Orders (SOs) and Financial Regulations (FRs) during 2017-18 with a consistent tender limit in both at £25,000 as required by prevalent EU legislation

We have reviewed the Council's minutes for the financial year to determine whether any issues exist or may be developing that might have an adverse effect on the Council's future financial stability and noting any decisions that have been made that have resulted in ultra vires expenditure being incurred. We have noted a number of areas of concern both in relation to the management of Council meetings and with the corresponding minutes themselves:

- The retrospective approval of payments has been minuted on a number of occasions. It is considered best practices to approve regular payments made by the Council by Direct Debit and Standing Order, such as utility bills, at the Annual Meeting of the Parish Council and thereafter to Ratify these when approving the monthly schedule of payments.

Other than in the case of Standing Order and Direct Debit Payments, as described above, or in the case of an emergency payment made by the Clerk as defined in the Council's Financial Regulations, all payment authorisations are required to be made by the members of the Full Council prior to, not subsequent to the payment being made;

- Matters which have not been published on the meeting's corresponding Agenda are being debated as a matter of course and recorded in the minutes as: 'Not on the Agenda'. Members are reminded that only matters that are published on the Agenda of the meeting may be debated at that meeting. All other business must be placed on the Agenda of the next meeting;
- The minutes of the Council's committees appear to be read into the minutes of the Full Council rather than published as Committee minutes in their own right. The correct process is that the Council publish individual minutes for each committee, for the draft minutes of each committee to be received at Full Council and when approved by members, Ratified. It is usual for the Chairperson of each committee to give a report to the Full Council at that time; and,
- At a meeting of the Finance Committee in November 2017, Full Council business was placed on the Agenda and discussed. The purpose of each Committee and its delegated authority is established each year at the Annual Parish Council meeting. The Finance Committee has no authority to discuss Full Council Business.

We note that significant expenditure in the amount of £38,670 net of VAT has been incurred on dredging work to clear the Bourne Rivulet from the sub-station to Garston's House which took place in January 2018. We have been presented with no clear evidence that any formal tender process was undertaken by the Council, nor indeed has any clear evidence been provided, during the Internal Audit process, or subsequently that any other quotation was sought from any other organisation than the dredging service provider that was appointed.

The Government / Public Contract Regulations (2015), now embodied in the latest versions of the NALC model Standing Orders and Financial Regulations, and the Council's own Financial Regulations require all contracts exceeding £25,000 to be subjected to a formal tender process including the advertisement in the Government's Contract Finder Website. This would not only apply to "one-off" contracts, but also to, for example, grounds maintenance contracts over a three or five-year timespan, where, whilst the annual cost were below £25,000, the total period cost would exceed that sum.

Finally, we note that the Council has resolved to avail itself of internet banking facilities, all payments in the year were made either by cheque, BACS, SO or DD.

Conclusions and recommendations

EU Legislation stipulates that all expenditure in excess of £25,000 should be subject to formal tender and the Council's own Financial Regulations also stipulate the same formal tender process. Such action requires any project being advertised on the Government's www.contractsfinder.gov.uk website.

We have been provided with no clear evidence that any formal tender process has been undertaken, nor that any alternative quotation had been sought in relation to the letting of the contract by the Council to dredge the Bourne Rivulet. We must conclude therefor that the Council has failed to arrange the contract in accordance with EU legislation and its own Financial Regulations and that this omission has resulted ultra vires and unlawful payments being made.

We have noted a number of areas of concern, pertaining to the management of Council meetings and the corresponding minutes of those meetings, described above. It is imperative that all Council business is conducted openly and transparently as required in the Governance and Accountability for Local Councils Practitioners Handbook, in accordance with the Council's own Standing Orders and Financial Regulations, according to the published Agenda and, at the appropriate committee or at Full Council.

- R1. The Council must ensure that it acts only within its powers, as defined by the Council's Standing Orders and Financial Regulations and as set out in Proper Practices in the Governance and Accountability for Local Councils Practitioners Handbook. Failure undertake a formal tender process in relation the Bourne Rivulet dredging project has resulted in the Council making ultra vires and unlawful expenditure in FY 2017-18 requiring the Council to provide a negative assertion in Section 1, Box 3 of the AGAR.***
- R2. The management and proper minuting of Council meetings is fundamental to the proper operation of every Council. To ensure that the new Clerk is fully appraised of the statutory requirements in this regard, members should strongly consider the Clerk's attendance on the next available Agenda, Minutes & Meetings training course.***
- R3. Members and the Clerk should acquaint themselves with the content of the Governance & Accountability Practitioners Handbook and the Good Councillor's Guide 2017 (supplied electronically with this report), and the content of the Council's own Standing Orders and Financial Regulations.***

Review of Payments and VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures;
- Funds are expended in accordance with 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;
- 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 examined a sample of payments in the year for compliance with the above criteria, selecting every payment in excess of £700 plus every twentieth payment, as recorded in the alpha cashbook. Our test sample comprises 21 individual payments totalling £62,385 and equating to 64% of all non-pay related expenditure in the year.

We note that two payments were made to Keith Pegden Contracting at the instruction of the Chairman, outside the proper approvals process of the council:

- On Thursday 28th December the Chairman instructed the Clerk, by email, to make a stage payment to Keith Pegden of £12,000 pertaining to the dredging works on the Bourne Rivulet. The payment was not approved by members prior to the payment being made, nor had the members approved a staged; and,
- On Thursday 25th January the Chairman instructed the Clerk, again by email, to make the final payment to Keith Pegden in the amount of £34,404 pertaining to the dredging works on the Bourne Rivulet. The payment was not approved by members prior to the payment being made.

We also note that the Clerk has submitted a VAT reclaim for the full 2017-18 financial year, totalling £12,354.03, detail of which we have agreed to the Rialtas Alpha control account detail and which was received electronically on the 3rd May 2018.

Conclusions and recommendations

The Good Councillor's Guide 2017 states that: 'The Chairman has few special powers. For instance, it is unlawful for a council to delegate decision making to any individual councillor and the Chairman is no different.' The Chairman had no power to instruct the Clerk to make any payment to the company outside the proper payment approval process at the Full Council. Resultantly, the payments must be considered ultra vires and unlawful as the powers that the chairman had to act have been exceeded.

- R4. *Each payment made by the Council must be properly approved by members, at meetings of the Full Council, prior to that payment being made. No member has the power to instruct the Clerk to make any payment other than in accordance with the Council's Financial Regulations.*
- R5. *To ensure that all members are aware of the proper payments process and to protect the Clerk and members from unwarranted accusations of impropriety, a payments policy should be developed and adopted as soon as possible.*

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: -

- Examined the Council's insurance policy arranged through Came & Co underwritten by Aviva to ensure that appropriate cover is in place and that members have reviewed its content: with Public and Employer's Liability cover both in place at £10 million and Fidelity Guarantee cover at £150,000, we consider the Council to have appropriate cover in place;
- The Council reviewed and formally readopted the Financial Risk Register at the meeting of the Full Council on 14th March 2017; and,
- Noted that the Council has two playgrounds; one located next to the Council's offices at St Mary Bourne and one in Stoke. The playgrounds are inspected on a weekly basis by the Playground Inspection Company on behalf of Basingstoke and Dean Borough Council. The Clerk has an electronic system, PSS Live which records the outcomes of inspections and any actions required. Actions are discussed and minuted during Full Council meetings.

We note that no additional Annual Inspection undertaken as the weekly inspection is undertaken by The Playground Inspection Company.

Conclusions

No issues have been identified in this area of our review warranting formal comment or recommendation.

Budgetary Control & Reserves

We are pleased to note that, following due and formal consideration, the Council has agreed its budget and precept for 2018-19 at the meeting of the Full Council on 18th December 2017, the latter being set at £19,497.

We note that periodic reviews of budget performance continue to be carried out by members comparing actual performance against the approved budget. We have reviewed the year-end outturn and are pleased to record that no unexplained or unanticipated variances requiring further review or explanation are apparent.

We have also reviewed the level of retained balances at the year-end, noting that the Council has no Earmarked Funds at present. The combined reserves have reduced significantly in FY 2017-18 to £27,993 (£44,083 as at 31st March 2017). At the 2017-18 spending level, this equates to just over three months' revenue spending which is only slightly higher than the lowest level of the generally recognised CiPFA guideline of between three and six months' net revenue spending at the prior year level.

Conclusions

Although the Council's General Reserve sits within the CiPFA guideline, we consider that the Council should review its reserves position during FY 2018-19 due to the playground, recreation area and lake that the Council maintains, and considering both maintaining a higher level of general reserve and also establishing designated earmarked reserves for repair and replacement of the playground equipment, recreation area furniture and repairs to the Lake in future years.

Review of Income

The Council has a limited range of income sources, primarily the precept, the fishing tenancy, grants for specific projects and other miscellaneous income by way of bank interest recovered VAT, etc.

We have examined the Rialtas Alpha nominal income account detail to ensure that the allocation of income is correct and that no evidence exists of unrecovered income. We are also pleased to note that the clerk is maintaining an appropriate record of sales invoices raised also indicating the date on which the invoice has been settled.

Conclusions

No issues have been identified in this area of our review warranting formal comment or recommendation.

Petty Cash Account

The Council operates a small petty cash account with minimal activity: however, as part of the Internal Audit Certification process, we are required to consider and report on the effectiveness of controls over operation of the account. In view of the low volume of payments in the year, we have checked and agreed each recorded payment to the supporting trade invoices, till receipts, and other payment documents, ensuring that VAT has been properly reclaimed with no issues arising. We have also agreed the Petty Cash reconciliation as at 31st March 2017 of £8.48.

Conclusions

No issues have been identified in this area of our review warranting formal comment or recommendation.

Salaries and Wages

We aim in this review area to ensure that the Council has approved the Clerk's annual salary, that a formal employment contract is in place and that the monthly salary is calculated in accordance with these criteria. We also aim to ensure that the appropriate tax and NI deductions and employer's NI contributions have been calculated accurately and that the appropriate payments are made to the clerk and HMRC.

We noted that, as in the prior year, the Council continues to avail itself of the services of a payroll provider: Diane Malley Payroll Services. The service provider undertakes all necessary payroll processing activities on behalf of the council, ensuring compliance with Real Time Information submission requirements by HMRC.

We have noted that the new Clerk is in possession of a full employment contract and that the Clerk's pay is based on the spinal scale at SCP 20 for an eighteen-hour working week. We have also noted that the Clerk has opted out of the Council's pension scheme.

We have, consequently, verified the monthly net payments made to the clerk, after deduction of the relevant tax and NI contributions, also ensuring the accuracy of payments of those deductions to HMRC, which are made quarterly.

Conclusions

No issues have been identified in this area of our review warranting formal comment or recommendation.

Asset Registers

The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March annually. The “Governance and Accountability Manual – Practitioner’s Guide” also requires councils to develop and maintain a register of all assets, recording their value in the Annual Return at purchase cost or, where that value is unknown, at an appropriate “proxy” cost as included in the prior year’s Return.

We have examined the Asset Register in place as at 31st March 2018 noting the appropriate nature of its content.

We have noted that the Asset Register remains unaltered from the prior year, FY 2016-17, as there have been no acquisitions or disposals during FY 2017/18, and that resultantly, the unamended total value of £294,731 has been correctly reported in the year’s Annual Governance and Accountability Return at Box 9 of Section 2.

Conclusions

No issues have been identified in this area of our review warranting formal comment or recommendation.

Investments and Loans

The Council re-invested £20,000 in March 2018 for one-year with Lloyds Bank: we have examined the resultant contract note, also ensuring that the prior year “investment” (£20,000) has been repaid appropriately with interest paid gross. No loans are in place either repayable by or to the Council.

Conclusions

No issues have been identified in this area of our review warranting formal comment or recommendation. However, we take this opportunity to remind members of the new Statutory Guidance on Local Government Investments from 1st April 2018 that strongly encourages all parish Councils to develop an investment strategy, providing their total investments exceed or are expected to exceed £10,000 at any time during the financial year.

Statement of Accounts and Annual Governance & Accountability Return

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in Section 2 of the AGAR, which is generated automatically by the Rialtas accounting software, and is used by the Clerk & RFO to provide a detailed set of accounting statements. We have consequently agreed detail therein to Section 2 of the 2017-18 Annual Governance & Accountability.

Conclusions

We are pleased to record that no issues arise in this area and, based on the work undertaken during our review for the year, we have "signed off" the Internal Audit Report in the year's Annual Governance and Accountability Return assigning positive assurances in all areas, other than in relation to Box B in relation to compliance with the Council's Financial Regulations. The Council will, similarly, need to provide a negative assurance in Box 3 at Section 1 of the Annual Governance & Accountability Return.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Council must ensure that it acts only within its powers, as defined by the Council's Standing Orders and Financial Regulations and as set out in Proper Practices in the Governance and Accountability for Local Councils Practitioners Handbook. Failure undertake a formal tender process in relation the Bourne Rivulet dredging project has resulted in the Council making ultra vires and unlawful expenditure in FY 2017-18 requiring the Council to provide a negative assertion in Section 1, Box 3 of the AGAR.	
R2	The management and proper minuting of Council meetings is fundamental to the proper operation of every Council. To ensure that the new Clerk is fully appraised of the statutory requirements in this regard, members should strongly consider the Clerk's attendance on the next available Agenda, Minutes & Meetings training course.	
R3	Members and the Clerk should acquaint themselves with the content of the Governance & Accountability Practitioners Handbook and the Good Councillor's Guide 2017 (supplied electronically with this report), and the content of the Council's own Standing Orders and Financial Regulations.	
Review of Payments		
R4	Each payment made by the Council must be properly approved by members, at meetings of the Full Council, prior to that payment being made. No member has the power to instruct the Clerk to make any payment other than in accordance with the Council's Financial Regulations.	
R5	To ensure that all members are aware of the proper payments process and to protect the Clerk and members from unwarranted accusations of impropriety, a payments policy should be developed and adopted as soon as possible.	