



LetchWood Business Management
134 Witham Road,
Black Notley,
Essex CM77 8LN
Tel 07932 144777 e-mail info@letchwood.co.uk

Internal Audit Report for Chigwell Parish Council

27th April 2017

It is noted that the Council has experienced severe difficulties in the audit year with the Clerk being dismissed and her actions subject to a police investigation. While the council realises that its lack of financial scrutiny contributed to the problem, there are still significant weaknesses in the financial reporting systems that must be addressed. The new Clerk and RFO have already made many improvements, but the Councillors must remember that they have a responsibility to understand the accounts and satisfy themselves that the money is being correctly accounted. The financial regulations make it clear what is required, and provided the Council follows the procedures and publishes appropriate data, there should not be a need for external supervision of the accounts.

- The Omega accounting system is being underused. It is a secure and auditable system and it is strongly recommended that the council makes full use of it to report transactions; the Council should not accept or use any reports that are presented from spreadsheets or word documents. Once agreed, these reports should be published as an appendix to the minutes of the meeting.
- The Council are reminded that they should be publishing all transactions over £100 for public scrutiny.
- It is noted that the RFO has recently imported the budget details into the Omega Package so the financial reports will show spending against planned budget which will make it easier to understand how the money is being spent and show any unexpected movement of money.
- I recommend that the council expands the financial reporting to make it clear that the payroll report, RBS reports on income & expenditure, bank reconciliations and cashbook have been approved at full council or by the finance committee. These should be recorded by resolutions to state explicitly what is being agreed. All resolutions should show a proposer and may also show a seconder. To ease the discussions, it can be helpful to publish a motion on

the agenda so councillors can see in advance what decision they are expected to make. There is full guidance in the standing orders about how this should be done.

- The progress against budget should be noted and minuted at least quarterly.
- As has been noted by the report from Alwyns LLP, there is no control on bank withdrawals via electronic transfer, so for the protection of the RFO as well as the council, bank reconciliations must be approved monthly. Although these requirements are already in the financial regulations, it would be beneficial if they were strengthened when the regulations are updated (see next item). The Councillors are reminded that it is their responsibility to satisfy themselves that the bank statements match the expenditure.
- The financial regulations should be updated to accommodate the Public Procurement Regulations 2015.
- Where significant expenditure is authorised by council or committee, there should be a resolution stating what is to be purchased, how much is to be spent and from whom it will be obtained. Financial regulations will define what counts as a significant purchase.
- The appointment of an internal auditor should be minuted by the finance committee or the full council.
- Financial regulation 5.1 requires credit references from all signatories. It is recommended that the council either enforces this, or removes it from the regulations.
- It is recommended that the councillors who sign cheques also initial the cheque stub or the authorisation slip on the invoice.
- Cheques are removed from the cheque book and attached to the invoice for ease of identification and payment. The council should consider leaving the cheques in the book before signature to ensure that they are issued sequentially and that the stubs are initialed.
- The Clerk and RFO will require contracts of employment and it is recommended that the Council uses the NALC / SLCC standard contract. The Council should consider evaluating these jobs against the NALC / SLCC profile.

Internal Control	Testing	Comments
Proper bookkeeping	<ul style="list-style-type: none"> • Is the cashbook maintained and up to date? • Is the cashbook arithmetic correct? • Is the cashbook regularly balanced? 	<p>Y Council uses the RBS Omega system for financial management and has the sales ledger module for income.</p> <p>Y</p> <p>Y</p>
<p>a) standing orders and financial regulations adopted and applied; and</p> <p>b) payments controls</p>	<p>Has the council formally adopted standing orders and financial regulations?</p> <p>Has a Responsible financial officer been appointed with specific duties?</p> <p>Have items or services above the de minimus amount been competitively purchased?</p> <p>Are payments in the cashbook supported by invoices, authorised and minuted?</p> <p>Has VAT on payments been identified, recorded and reclaimed?</p> <p>Is s137 expenditure separately recorded and within statutory limits?</p>	<p>Y Standing orders amended March 2017 min 16.204 to adopt the openness regulations. Financial regulations will require updating to adopt the Public Contract Regulations 2015.</p> <p>Y The Parish employs separate Proper Officer and Responsible Financial Officer</p> <p>N/A No significant spend in audit year.</p> <p>Y Payments are recorded in Omega and noted by full council but not authorised.</p> <p>Y VAT Claims are normally made quarterly.</p> <p>Y No s137 spend over £100</p>
Risk management arrangements	<p>Does a review of the minutes identify any unusual financial activity?</p> <p>Do minutes record the council carrying out an annual risk assessment?</p> <p>Is insurance cover appropriate and adequate?</p>	<p>Y The financial activity is not reported in the minutes but the council note the cheques signed and the balances at every meeting.</p> <p>Y Risk assessment approved in minute 16.202b2</p> <p>Y Material and financial assets are reasonable. It is noted that a substantial claim has been made in the</p>

current year.

Are internal financial controls documented and regularly reviewed? N Discussion on the review of internal control was deferred under item 16.202b1 pending the publication of an external report is received.

Budgetary Controls Has the council prepared an annual budget in support of its precept? N Precept for 2017/8 was agreed in Finance minute 16.21 and published in Full Council minute 16.165b as £276,952. The budget figure was not stated and breakdown not presented.

Is actual expenditure against the budget regularly reported to the council? N The council receives budget reports on request. It is noted that more rigorous budget management has been introduced.

Are there any significant unexplained variances from budget? Y It is known that unauthorised payments have been taken in this, and previous years. This is subject to an ongoing police investigation.

Income Controls Is income properly recorded and promptly banked? Y The sums reported on the LLP Littlejohn site agree with the sum demanded of £285126 for 2016/7.

Does the precept recorded agree to the Council Tax authority's notification? Y Cash sums are usually small, but high value payments are deposited immediately.

Are security controls over cash and near-cash adequate and effective? Y

Is all petty cash spent recorded and supported by VAT invoices/receipts? Y Top-up cheque issued at each meeting, the petty cash account should be produced at council meetings for endorsement and approval.

Petty cash procedures Is petty cash expenditure reported to each council meeting? Y

Is petty cash reimbursement carried out regularly? Y

Payroll Controls	Do all employees have contracts of employment with clear terms and conditions?	N	It is noted that the council has assessed itself as a LC2 above substantive. It is recommended that the council reviews its status in comparison with the NACL SLCC guidance. The Clerk and RFO do not have contracts.
	Do salaries paid agree with those approved by the council?	N	This is the subject of an ongoing police investigation. Corrective action has been taken in the audit year.
	Are other payments to employees reasonable and approved by the council?	N	Unauthorised withdrawals have been made in the audit year.
	Have PAYE/NIC been properly operated by the council as an employer?	Y	Money Soft used and under maintenance agreement.
Assets controls	Does the council maintain a register of all material assets owned or in its care?	Y	The asset register has been reviewed in the audit year and a revised list is being issued based on the insurance asset register.
	Are the assets and Investments registers up to date?	Y	A revaluation is being considered in the current year.
	Do asset insurance valuations agree with those in the asset register?	Y	
Bank Reconciliation	Is there a bank reconciliation for each account?	Y	Balances are now prepared in Omega and issued each month.
	Is a bank reconciliation carried out regularly and in a timely fashion?	N	
	Are there any unexplained balancing entries in any reconciliation?	Y	
	Is the value of investments held summarised on the reconciliation?	Y	

Year-end procedures	Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?	Y	It is noted that accounting practice has been weak and corrective action will be taken to make the presentation of accounts comply with financial regulations.
	Do accounts agree with the cashbook?	N	
	Is there an audit trail from underlying financial records to the accounts?	N	Most transactions have a clear trail from purchase to payment.
	Where appropriate, have debtors and creditors been properly recorded?	Y	