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## Internal Audit Report for Chigwell Parish Council

12<sup>th</sup> April 2018

External auditor's published precept figures; 2017/18 £276,964, 2016/17 £285,126

At the last audit, it was noted that poor control over finance and procedure had caused significant problems that were under investigation. I am pleased to note that excellent progress has been made towards resolving the issues raised in the last audit; Councillors and Staff are to be congratulated for working in a more structured and open way. Councillors need to remind themselves regularly that it remains their duty to oversee the administration and expenditure, for their protection as well as the protection of the officers.

I note that the Council issued an order for community buses that exceeded £25,000 without offering the work to competitive tender on Contract Finder as required by the Public Contracts Directive. The justification was that Financial Regulation 11.d allows work to be commissioned without tendering if the council states it reasons. For contracts up to £25,000 this is acceptable, but it cannot negate the requirement to comply with the Public Contracts Directive. I am aware that the Clerk has taken advice from the National Association who have advised on the most appropriate course of action.

### Items re-raised from previous audit

- The Clerk and Responsible Financial Officer need to satisfy themselves and the council that bank withdrawals via electronic transfer or telephone transfer are under adequate control. Although telephone banking is secure, regular checks must be

made as banking errors and third-party fraudulent withdrawals could cast suspicion on those with access to the account. 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.

- To ease discussion in meetings and for ease of reaching an unambiguous decision, 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.
- In the light of agreement to adopt the community bus service and other enhancements to the service, and in the light of the salary scales for the Clerk and Responsible Financial Officer, the Council should review its status as LC2 above substantive. It is recommended that the council compares service delivery with the templates offered in the NACL SLCC guidance.
- 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. For example, Minute 17.117 Community Bus Service.
- 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 initialled.
- The progress against budget should be noted and minuted at least quarterly.

#### **Items from previous audit successfully resolved**

- The Omega accounting system is now being used successfully and reports are being published as an appendix to the minutes of the meeting.
- I note that the council has now expanded 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.

Proposers and seconders are recorded.

- All staff now have contracts of employment.
- The financial regulations have been updated to accommodate the Public Procurement Regulations 2015.
- It is noted that the appointment of an internal auditor was made by Full Council in minute 17.132.
- Minute FIN17.21 removed the requirement for credit references from all signatories from Financial regulation 5.1. Electronic versions have been republished, but old paper copies were still available in the office.
- The Council are now publishing all transactions over £500 (not £100 as I incorrectly wrote in the previous audit report) for public scrutiny.
- Councillors now sign cheques and initial the cheque stubs, or the authorisation slip on the invoice.

#### **Recommendations**

- I would recommend that the council considers adopting a simple project management system to track significant project like community buses and community hub and grounds maintenance.
- When closing the meeting to press and public, the council should state the legislation used to close the meeting and do so by resolution.
- Minutes of Committee meetings should be identified by a prefix, for example Finance Committee F18/22, Planning P18/22, Full Council will not require a prefix.
- The Council are advised that new model standing orders have been published and should be considered for adoption.

Internal Control	Testing	Comments
	<ul style="list-style-type: none"> <li>• Is the cashbook maintained and up to date?</li> </ul>	Y Council uses the RBS Omega system for financial management and has the sales ledger module for income.
Proper bookkeeping	<ul style="list-style-type: none"> <li>• Is the cashbook arithmetic correct?</li> <li>• Is the cashbook regularly balanced?</li> </ul>	Y Y Y
a) standing orders and financial regulations adopted and applied; and	Has the council formally adopted standing orders and financial regulations?	Y Standing orders amended March 2017 min 16.204 to adopt the openness regulations.  Financial regulations updated to include the Public Contract Regulations by minute 17.13e
b) payments controls	Has a Responsible financial officer been appointed with specific duties?	Y The Parish employs a separate Proper Officer and Responsible Financial Officer
	Have items or services above the de minimus amount been competitively purchased?	N 17.117 The Council applied financial regulation 11.1d to exempt from competitive tendering the purchase of community buses. The Council did not apply financial regulation 11.1b and the requirement to place the contract on Contract Finder. This decision was reviewed in minute 17.122 where the Council confirmed its validity.
	Are payments in the cashbook supported by invoices, authorised and minuted?	Y Payments are recorded in Omega and noted by full council in appendices to the agenda.

	Has VAT on payments been identified, recorded and reclaimed?	Y	VAT Claims are normally made quarterly.
	Is s137 expenditure separately recorded and within statutory limits?	Y	No s137 spend over £100 in current year.

	Does a review of the minutes identify any unusual financial activity?	N	The financial activity is reported in the minutes and Council note the cheques and agree the balances and reconciliations at every meeting.
Risk management arrangements	Do minutes record the council carrying out an annual risk assessment?	Y	Risk assessment approved in minute 17. 191.d2. Risk Register is adequate in scope and coverage.
	Is insurance cover appropriate and adequate?	Y	Material and financial assets are reasonable.
	Are internal financial controls documented and regularly reviewed?	Y	Review of internal control was approved in minute 17. 191.d1

Budgetary Controls	Has the council prepared an annual budget in support of its precept?	Y	Finance Committee considered a draft budget September -December at minutes FIN17.6 FIN17.20 and FIN17.28. The Full Council held a budget meeting on 25 <sup>th</sup> January in which the precept for 2018/9 was published in minute 17.163 as £285,262. The budget figure was agreed as £346,643.
	Is actual expenditure against the budget regularly reported to the council?	Y	Report generated from Omega accounts package.

Are there any significant unexplained variances from budget? N

Income Controls

Is income properly recorded and promptly banked?	Y	Omega purchase daybook used to record transaction.
Does the precept recorded agree to the Council Tax authority's notification?	Y	The sums reported on the LLP Littlejohn site agree with the sum demanded of £276,964 for 2017/8.
Are security controls over cash and near-cash adequate and effective?	Y	Cash sums are usually small, but high value payments are deposited immediately.

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.
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?	Y	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 NALC SLCC guidance.
	Do salaries paid agree with those approved by the council?	Y	Money Soft used and under maintenance agreement.
	Are other payments to employees reasonable and approved by the council?	Y	
	Have PAYE/NIC been properly operated by the council as an employer?	Y	
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	
	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 for all accounts in an appendix to the Agenda.
	Is a bank reconciliation carried out regularly and in a timely fashion?	Y	

Are there any unexplained balancing entries in any reconciliation? N

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

Do accounts agree with the cashbook? Y

Is there an audit trail from underlying financial records to the accounts? Y Sampled transactions have a clear trail from purchase to payment.

Where appropriate, have debtors and creditors been properly recorded? Y