



# Aylesford Parish

## INTERNAL AUDIT REPORT

Date: 22<sup>nd</sup> December 2020

**Report Author: Karen Herbert**

**Audit Manager: Kelly Neath**

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# 1 SUMMARY

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Under the requirements of local government legislation, Section 151 of the Local Government Act 1972 and the Accounts and Audit (Amendment) Regulations 2006, the Parish Council has a statutory responsibility to prove an adequate and effective system of internal audit.

The role of the Internal Auditor is to provide an independent review and appraisal of the Council's system of internal control. The Internal Auditor must be independent of the activities they audit in order to remain impartial and effect professional judgements and recommendations.

In accordance with the agreed audit plan (Appendix A) and following Internal Audit's visit to you on 10<sup>th</sup> December 2020, testing of the following areas has been completed:

- Progress on Previous Issues Raised
- Previous Financial Year Statement of Accounts
- Financial Regulations and Standing Orders
- Budget Setting
- Budget Reporting
- Contracts
- Cheque Books
- Purchase Cards
- Expenditure
- Petty Cash
- Income
- Banking
- Personal Cheques
- Investments
- Account Books
- Reconciliations
- VAT
- Allotments
- Salaries and Wages

## 2 FINDINGS

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### Progress on Previous Issues Raised

#### From Visit 1 2019-20

##### Issue 2 – Petty Cash – Resolved

Petty cash should be independently checked on a regular basis.

Finding: Review of the Petty cash book identified that there is no evidence of an independent spot check since May 2018. The Clerk advised that tin balance and expenditure levels are low and therefore councillors did not feel necessary to review petty cash, top ups are reported to Policy and Resources and Councillors can request details of expenditure.

#### From Visit 2 2019-20

##### Issue 1 – Asset Register - Outstanding

Consideration should be given to itemise the office and council chamber furniture items currently grouped together on the asset register under the heading of “Other office equipment”

Finding: Previous Internal Audit report had been presented to Policy and Resources committee and the Clerk advised that this issue would be addressed as part of a full review of the asset register to be completed by year end.

##### Issue 2 – Reconciliations - Resolved

Ensure that all reconciliations are verified by the Clerk and a Councillor and that both the Clerk and the Councillor has signed and dated the reconciliation as evidence of the verification.

Finding: Testing found that all reconciliations had been signed and dated as checked by the Clerk and a Councillor.

### Previous Financial Year Statement of Accounts

*Control: The previous year’s financial statements and AGS are publicised for inspection before and after external audit.*

Finding: The unaudited Financial Statements and Annual Governance Statement were publicised on the council website and noticeboards on 13th June 2020 with the notice of conclusion of audit publicised 10<sup>th</sup> November 2020. The Clerk was advised to contact the external auditors for explanation of the note raised in their report.

### Financial Regulations and Standing Orders

*Control: Financial Regulations are reviewed annually and reported to the relevant committee.*



Finding: The Financial Regulations were last approved at Policy and Resources on 3<sup>rd</sup> March 2020, the Regulations were due to be approved by Full Council on 17<sup>th</sup> March 2020 however, this meeting was cancelled. The current version of the Financial Regulations detailed that they were approved by Council on 17<sup>th</sup> March 2020. Review of the council website identified that the published version of the Financial regulations is a previous version. **Issue 1**

### **Budget Setting**

*Control: Budget setting is produced for revenue and capital expenditure and approved by the Council with the precept agreed and set as part of the process. The precept set covers the annual estimated spend and is not agreed without any budget setting in place.*

Finding: There is a clear and robust process established to set and agree budgets. The budgets for 2020-21 have been approved at the appropriate committee and the precept for 2020-21 had been agreed at Full Council.

Reserves are considered as part of the budget setting process with general reserves proportional to Net Revenue Expenditure.

### **Budget Reporting**

*Control: Detailed expenditure and income for the current financial year to date against the budget set is reported at least quarterly if not included within the monthly reporting to committee.*

Finding: The Financial Regulations state that budget monitoring statements should be prepared and presented to the Council quarterly. At the time of visit 1, the budget monitoring statements for quarter 1 and quarter 2 had not been produced and therefore no further testing was undertaken. **Issue 2**

### **Contracts**

*Control: Financial Regulations are followed in accordance with contracts that are awarded.*

Finding: The Financial Regulations clearly detail the process for entering into contracts, the Council has followed this process appropriately when awarding contracts for grounds maintenance and grass cutting.

### **Cheque Books**

*Control: Cheques are processed and authorised as per the financial regulations. Cheque book stubs include full details of the payment made. Blank cheques are not pre-signed. Cheques are issued sequentially with no missing cheques and cancelled cheques are crossed through as cancelled and kept within the cheque book.*

Finding: Examination of the Financial Regulations identified that there is sufficient detail regarding the processing and authorisation of cheques.



Internal Audit was advised that cheque books are now rarely used as payments are made by BACS. A review of cheque stubs from April – December 2020 confirmed that only one cheque had been used. Full details of the payment were included, and the cheque stub was initialled by two signatories. Cheques are issued sequentially with no missing cheques identified. Testing found no pre signed blank cheques or cancelled cheques.

### **Purchase Cards**

*Control: Purchase cards are held securely, only used by the card holder, only used for appropriate expenditure, and are supported by detailed receipts. Any loyalty points are only claimed if the Council benefits. Purchase card expenditure is reconciled to receipts prior to authorising*

Finding: From discussion with the Clerk and review of the storage arrangements, Internal Audit are satisfied that the credit card is stored securely. Sample testing identified that credit card expenditure is appropriate, in line with the Financial Regulations and receipts are available to support all expenditure. The credit card balance is cleared in full each month by direct debit.

### **Expenditure**

*Control: Invoices show order number, copy letter or contract authorising purchase of goods. Expenditure is authorised and reported to the relevant committee as per the financial regulations.*

Finding: Sample testing confirmed that expenditure is within authorisation limits and is appropriate with invoices and receipts available to support payments made. Expenditure is normally reported to the Policy and Resources Committee however due to meeting cancellations because of COVID-19, approval has been sought by email from two Councillors.

### **Petty Cash**

*Control: There is a maximum agreed level of petty cash in place. Receipts are available to support all expenditure. Receipts are duly numbered to allow cross reference with petty cash books. All cash top ups are noted in the petty cash book. Entries in the petty cash book are up to date. All petty cash payments are reasonable.*

Finding: There is a maximum petty cash limit of £100. The cash and receipts in the tin reconciled to this amount. Sample testing found that spend was appropriate and that receipts were available to support expenditure with the petty cash book kept up to date.

### **Income**

*Control: A sequential receipt book is in place to record all income received. All income recorded as received within the receipt book are against invoices/booking forms/daily cash book etc agrees with the bank paying in book.*



Finding: The Clerk confirmed that income received for allotments, cemeteries, parking, and banner display has been received by BACS. Sample testing found that charges had been raised correctly against published rates and could be identified on the bank statements and in Parish accounts.

### **Banking**

*Control: Income is banked at least weekly and large amounts of cash are not held on site. Adequate controls are in place regarding to access to online banking and processing and authorising transactions.*

Finding: Banking is carried out whenever cash is received. Review of the bank paying in book identified that only 2 slips have been used this year to bank cheques that had been received. Both payments could be traced into the Parish bank account.

The Parish uses online banking to make payments. Access to online banking is sufficiently controlled with segregation of duties between persons being able to set up and authorise payments. All online banking is undertaken from the office or Clerk's secure home WIFI.

### **Personal Cheques**

*Control: Personal cheques are never cashed from Council funds or petty cash.*

Finding: Internal Audit confirmed with the Clerk that personal cheques are not cashed. A review of paying in books and petty cash records did not identify any occurrences of this taking place.

### **Investments**

*Control: Full accurate and complete records are held of all investments and kept securely. Investments are reviewed regularly, and all instructions are agreed by full council and minuted.*

Finding: The Parish does not hold any investments, the 2-year fixed rate bond previously held with Cambridge and Counties has now matured and become an easy access savings account.

### **Account Books**

*Control: All account books are maintained and up to date.*

Finding: Account books are maintained using an appropriate financial system and are up to date.

### **Reconciliations**

*Control: Bank reconciliations are carried out regularly and are independently verified.*

Finding: Bank reconciliations have been completed for each month and have been independently verified by a Councillor. Internal Audit have noted that completion of the



reconciliations was delayed for the first months of 2020-21 however the reconciliations are now up to date.

### **VAT**

*Control: VAT returns are completed accurately and timely and VAT reimbursed has subsequently been received and shows within the accounts.*

Finding: VAT returns are completed monthly and reimbursements could be identified in the Parish bank account. Internal Audit have noted that completion of the VAT returns was delayed for the first months of 2020-21 however, this is now up to date.

### **Allotments**

*Control: Fees and charges for allotments have been reviewed annually and charges have been invoiced accurately with all expected income received.*

Finding: Allotment charges have been reviewed for 2020-21. Sample testing found that fees have been invoiced correctly and that all expected income has been received and could be traced into the Parish bank account.

### **Salaries and Wages**

*Control: Salaries and wages are reviewed annually and agreed at full council. Accurate salaries and wages are paid to staff*

Finding: Salaries have not yet been reviewed for 2020-21. The Clerk advised that it is expected that salaries will be reviewed at the next Full Council meeting. Sample testing showed that staff were paid accurately in line with 2019-20 agreed amounts with overtime being authorised appropriately. **Issue 3**

### **3 ISSUES IDENTIFIED**

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#### **Issue 1 – Financial Regulations**

Financial regulations should be reviewed annually, and the published version should reflect the date of last review by The Council.

#### **Issue 2 – Budget Reporting**

Detailed expenditure and income for the current financial year to date against the budget should be reported at least quarterly as per the Financial Regulations.

#### **Issue 3 – Salaries and Wages**

Salaries and wages should be reviewed annually and agreed at Full Council.



## Appendix A – Audit Plan 2020/21

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The Amendments to the Accounts and Audit Regulations 2006 require that an Internal Audit plan is prepared for your Council to consider and formally approve.

The majority of the audit work will be done by sample testing a sufficient number of transactions to provide assurance that the systems of financial control work effectively and provide accurate information to support the Council's activities. It is therefore proposed that a review of the following control objectives is carried out to ensure they are being achieved throughout the year to a standard adequate to meet the needs of the Council:

- Significant risks are assessed by the Council to ensure objectives are achieved along with a review of the adequacy of the arrangements to manage these.
- Appropriate books of account have been kept accurately throughout the year.
- The annual precept requirement resulted from an adequate budgetary process with progress against the budget regularly monitored and reserves appropriate.
- The Council's financial regulations have been met, payments supported by invoices with expenditure approved and VAT appropriately accounted for.
- Expected income fully received, based on correct prices, accurately recorded, promptly banked, and VAT appropriately accounted for.
- Petty cash payments properly supported by receipts with expenditure approved and VAT appropriately accounted for.
- Salaries to employees and allowances to members paid in accordance with Council approvals, and PAYE and NI requirements accurately applied.
- Complete and accurate Asset and Investments registers that are properly maintained.
- Regular and year-end bank account reconciliations accurately carried out.
- Accounting statements prepared during the year are prepared on the correct accounting basis, agreed to the cash book, supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors accurately recorded.
- Where applicable trust funds (including charitable) responsibilities as trustee are met by the Council.
- Awareness to the potential for fraud, error or non-compliance, and any issues that may increase this potential, including a review of the arrangements for the security of systems and data.