

Report to Hemsby Parish Council

Internal Audit Review as at February 2018

1. Summary.

1.1 The Internal Auditor was requested on 4 January 2018 to undertake an Internal Audit Review on behalf of the Parish Council. A detailed Audit Plan for the Review was agreed and included a review of the book-keeping and accounting procedures with the aim of arriving at 'baseline' figures that could be used as the foundation for the future presentation of financial information to the Council. The Audit Plan also covered key elements of financial administration and control, including the review of any bank reconciliations undertaken, controls exercised over receipts and payments, budgetary control and risk management arrangements. Recommendations and a Plan of Action would also be put forward for the Council's consideration. The Review would also support the End-of-Year Audit that will be required to take place during April/May 2018 as part of the Council's completion of the Annual Return for the year 2017/18.

1.2 The Internal Auditor attended the Parish Council's offices on 23 February 2018 to commence the review with Mrs Elaine Galer, the Parish Clerk and Responsible Financial Officer (RFO) in attendance.

1.3 The previous Parish Clerk/RFO, Mrs Shirley Weymouth, left the Council as at 31 December 2017. Mrs Galer took up her duties with effect from 1 January 2018.

1.4 The audit revealed that many of the Council's financial and other records have still to be transferred from Mrs Weymouth to the current Clerk/RFO. As a result, Mrs Galer is currently obstructed in terms of being able to carry out some key financial duties on behalf of the Council. At the time of the audit review, most of the Council's bank statements covering the period 1 April 2017 to 31 December 2017, the relevant cheque books/counterfoils and supporting documentation (including the invoices processed for payment during that period of time) had not been provided to Mrs Galer.

1.5 Importantly, the new Clerk/RFO is still waiting for a bank reconciliation to be provided by the previous Clerk/RFO to confirm that the accounts were agreed to the bank statements prior to or at the date of leaving, 31 December 2017.

1.6 Whilst this financial information is being withheld from the new Clerk/RFO, it is not possible for her to fully meet the financial responsibilities placed upon her by the Council nor is she able to begin preparation for the completion of the Council's End-of-Year Accounts for 2017/18.

1.7 The current situation, as described above, limits the ability of both the Council and its Clerk/RFO to currently deliver effective governance arrangements and efficient financial administration. It is important that the matter is addressed as a

matter of urgency in order that the Council can move forward with confidence to maintain strong governance and effective financial management and control.

1.8 Examination of the limited amount of financial information and data held by the current Clerk/RFO in respect of the 2017/18 year of account revealed that the HMRC form P45 (Details of Employee leaving work) had been completed in respect of the former Clerk/RFO. A List of Assets (with a total value of £793,949 displayed as at 31 March 2017) and a copy of the previous year's Annual Return (2016/17) submitted to Mazars, the External Auditors for that year of account, were also held within the Council's files.

1.9 The new Clerk/RFO has achieved significant progress since 1 January 2018 in terms of increasing her knowledge in many aspects of the work and tasks required but there clearly remains a steep learning curve that needs to be addressed. It is important that the Clerk/RFO is given all necessary support by the Chairman and other Councillors in this respect.

1.10 The Clerk/RFO is currently looking to secure and improve the quality of documentation in order to evidence the operation of adequate and effective internal financial controls and will be looking to complete the key tasks that must be undertaken by the Council before the year-end of 31 March 2018.

1.11 The following Internal Audit work was carried out on the adequacy of systems of internal control in accordance with the Audit Plan. Comments and recommendations arising from the review are made below together with a suggested Plan of Action which the Council is invited to consider and implement as necessary.

2. Proper Book-keeping and Accounting procedures.

2.1 The current Clerk/RFO is maintaining a Cashbook detailing payments made and any income received as from 1 January 2018. No accounts or supporting information prior to that date were available to the Internal Auditor. Accordingly, the audit was unable to confirm that the Cashbook up to and including 31 December 2017 was being adequately maintained and up-to-date or whether it had been regularly balanced and reconciled to the bank statements.

2.2 Due to the lack of any prime records being available, the audit was unable to verify that an audit trail from the underlying financial records to the Accounts was in place and operating efficiently prior to 1 January 2018.

2.3 Moreover, the lack of financial information prevented the preparation of a 'baseline' from which the Clerk/RFO can move forward to prepare financial and accounting information for the Council in a clear and logical format. The copy of the Accounts and the Annual Return for the previous year 2016/17 displayed an account balance of £41,027.71 as at 31 March 2017. This had been reconciled to the bank statements at that date. The figure had been confirmed by the External Auditors, Mazars LLP and, accordingly, this figure will be the opening account balance as at 1 April 2017.

Recommendation 1: The Council should ensure that the current Clerk/RFO is provided with bank statements, cheque books/cheque counterfoils, all accounting records, details of payments made and income received (with all necessary supporting documentation) for the period up to 31 December 2017 as a matter of urgency. Failure to do so will continue to prevent the Clerk/RFO from fully meeting her responsibilities and will impact upon the Council's ability to maintain effective financial administration and robust financial control. Importantly, the financial information and documents are essential requirements in the preparation of the Council's Final Accounts for the year 2017/18 and the subsequent audit review.

2.4 Later this year, the End-of-Year Internal Audit will need to examine the operation of the accounting system over the full 2017/18 year and to verify that there is a clear audit trail from the underlying financial records to the Accounts, with supporting invoices and vouchers in place. The End-of-Year Audit will also need to confirm, inter alia, that regular reconciliations between the Accounts and the bank statements have taken place.

3. Bank Reconciliation.

3.1 Bank Reconciliations undertaken in the 2017/18 year were not available to the Internal Auditor. Accordingly, the audit was unable to confirm that a bank reconciliation for each bank account has been carried out regularly and timely or whether there were any unexplained balancing entries in any bank reconciliations prepared during the 2017/18 year to date. The only bank statements available for inspection at the time of the audit were those for January 2018 (both Current and Savings Accounts) and November 2017 (Current Account only); no other bank statements had been passed to the new Clerk/RFO.

3.2 It is understood that a Petty Cash system is operated by the Council (the balance on the account as at 31 March 2017 was displayed in the End-of-Year accounts as 0.45p). However, the balance of any Petty Cash held and any documentation supporting items charged to the Account have yet to be passed to the new Clerk/RFO. Accordingly, the system for recording Petty Cash payments could not be examined by Internal Audit.

4. Standing Orders, Financial Regulations and other regulatory issues.

4.1 The Council's Standing Orders were reviewed by the Internal Auditor. The Standing Orders are now out-of-date, no longer fit-for-purpose and require review. For instance, item 30 under 'Financial Matters' refers to the Public Contracts Regulations 2006 (at section 30e) which have since been replaced by the Public Contracts Regulations 2015. The Clerk/RFO confirmed that she had recently attended a Norfolk Association of Local Councils (NALC) training course on Standing Orders and, as a result, a number of items within the Council's Standing Orders had been identified as requiring amendment. The Clerk/RFO intends to shortly present the latest NALC model Standing Orders to Council for adoption.

4.2 Similarly, the Council's Financial Regulations were reviewed by the Internal Auditor. The Financial Regulations refer to the Accounts and Audit Regulations 2011 which have since been replaced. Accordingly, the Financial Regulations are now out-of-date, no longer fit-for-purpose and require review.

Recommendation 2: The Council should consider adopting the latest NALC Model Standing Orders and Financial Regulations as soon as practically possible and no later than the end of the 2018/19 year in order to comply with current legal requirements and procedures.

4.3 There is no record of the Council being registered with the Information Commissioner's Office (ICO) as a Data Controller for the provision of council services under Data Protection legislation. Data Protection assumes even greater significance this year due to the introduction of the General Data Protection Regulations (GDPR) with effect from 25 May 2018.

Recommendation 3: In view of the type and range of services provided and the amount of personal data held by the Council, it is important that the Council promptly undertakes the following action:

- a) Register with the Information Commissioner's Office as a Data Controller for the provision of council services;
- b) Prepare for the application of the new General Data Protection Regulations that apply from 25 May 2018 in order that the Council can demonstrate compliance as soon as practically possible.

4.4 The Council has a Code of Conduct in place; the copy on file was dated 16 July 2012. An up-dated Code of Conduct has been published since that date.

Recommendation 4: The Council should ensure that the Code of Conduct currently being used is the most up-to-date version and, if necessary, consider and formally approve the most recent model Code.

4.5 The Council demonstrates good practice by having a wide range of formal policies and procedures in place, including a Model Publication Scheme under the Freedom of Information Act, a Child Protection Policy and a Policy regarding Burials within the Parish. However, it is unclear when these policies and procedures were last reviewed. Accordingly,

Recommendation 5: During the year 2018/19 the Council should programme the review of all Policies and Procedures currently in force in order that they are brought up-to-date and to ensure that they comply with the latest legislation and regulations in force.

5. Payment Controls.

5.1 Details of payments made between 1 April 2017 and 31 December 2017 were not available to the Internal Auditor. Accordingly, the audit was unable to confirm that all payments listed in the Cashbook between those dates were supported by invoices, properly authorised and Minuted. Similarly, it was not possible, due to the lack of documentary evidence, to verify that VAT on payments had been identified and correctly recorded. Information available to the Internal Auditor revealed that an amount of £1,174.96 from HMRC was received by the Council at bank on 24 November 2017 and this could possibly be a reimbursement of VAT paid by the Council. However, no documentation was available to verify this.

5.2 The Minutes of the Council's meetings in November and December 2017 were provided to the Auditor. It was seen that the Minutes included a list of the Accounts put forward for approval and payment. However, the copy invoices and other hard-copy documentation was not available to the Internal Auditor so it was not possible to verify the correctness or the completeness of the information listed in the Minutes.

6. Risk Management arrangements.

6.1 The files held by the Clerk/RFO (together with the Council's Minutes available) revealed that the Council has a number of risk assessment documents in place and reports are provided to meetings of the Council. The Internal Auditor was unable to locate, within the available records, a risk assessment in respect of the Children's Play Equipment, an important facility in terms of risk management responsibilities.

Recommendation 6: The Council should ensure that a detailed risk assessment in respect of Children's Play Equipment is in place and regularly reviewed. The Council should ensure that all necessary action is taken in terms of regular and frequent reviews of the equipment to identify any potential hazards, faults or failures. An annual inspection and written report by a suitably qualified RoSPA engineer should also be undertaken.

6.2 The Accounts and Audit Regulations 2015 require a review by the full Council at least once a year of the effectiveness of the Council's system of internal control, including the arrangements for management of risk, with the review suitably Minuted.

Recommendation 7: The Council should ensure that a review of its Internal Control and Risk Management procedures and documentation takes place (and Minuted accordingly) prior to 31 March 2018, in order to comply with the Accounts and Audit Regulations 2015. The Council should ensure that the documents provide a comprehensive analysis of the risks faced by the Council and the control measures in place to mitigate the risks identified.

6.3 The Council's Insurance Policy with Zurich Municipal for the year ending 31 May 2018 is held on the Council's files and was discussed with the Clerk/RFO. Significant sums have been paid in the year for insurance cover for the Council's operations and the Pavilion. Unless a long-term agreement is in force, it is important to ensure that all renewal invitations are compared with quotations from other suitable insurance

providers in order to avoid the possibility of paying excessive insurance premium costs.

6.4 The Fidelity Guarantee insurance cover stands at £100,000, 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.

Recommendation 8: Prior to the date of renewal of the policy (31 May 2018) the Council should:

- a) Undertake a comparison between the items listed in the Asset Register and those included within the schedules of the Council's Insurance Policy. Any assets identified as not being adequately covered by insurance should be highlighted in order that appropriate cover can be secured by the Council, as required.
- b) Unless a long-term agreement is in place with Zurich Municipal (and the Council accordingly tied-in to the existing provider) a number of quotations should be obtained from insurance providers (prior to the renewal date) to enable the Council to consider a range of quotations for the level of insurance cover required.

7. Budgetary controls.

7.1 The Minutes of the Council meeting on 20 November 2017 confirmed that the Council considered and approved a Precept of £17,000 for the year 2018/19. It was not clear from the Minutes of that meeting whether a detailed Budget Paper was presented to Council for consideration.

7.2 Good financial practice provides that the basic format for Budget preparation for the 2018/19 year (a process that would normally be undertaken in November/December 2017) would include the following details:

- a) A list of all main areas of income and expenditure, itemised as required;
- b) Actual income and expenditure in 2016/17 displayed against each of the items listed;
- c) Anticipated Actual income and expenditure in 2017/18 displayed against each item listed;
- d) An Estimated Budget for the forthcoming year 2018/19 to include any new items not previously listed.
- e) The amount of the Precept required to meet the net expenditure, taking into account any sums to be drawn from Reserves or sums required to increase the level of Reserves held.

7.3 In the absence of any budget details for 2018/19 being available, the Clerk/RFO is intending to produce a detailed budget in accordance with the above criteria to assist the Council maintain financial and budgetary control during 2018/19. With a detailed Budget document in place, the estimated amounts can be used effectively by the Council for budgetary control purposes. It is good financial practice for a Council to receive regular reports of the income and expenditure in the year

compared against the budget. In this way, all Councillors will have the opportunity to receive sufficient information to make informed decisions and, specifically, the Council will be in a position to identify any significant variations from budget and promptly take any remedial action as necessary.

8. Income controls.

8.1 No documentation or data relating to income received during the period 1 April 2017 to 31 December 2017 was made available to the Auditor. Accordingly, it was not possible to confirm that income was properly recorded in the accounts during that period of time and promptly banked. Similarly, the lack of supporting documentation prevented the Auditor from verifying that any invoices for debts owed to the Council were being promptly issued and followed up as necessary.

8.2 The End-of-Year Internal Audit in April/May 2018 will need to identify the procedures in place for the receipt and recording of income and will look to verify that a clear audit trail exists for all items recorded in the accounting system and received at bank. Reference will need to be made to bank paying-in books and bank statements during the course of this examination.

9. Payroll controls.

9.1 The files held by the current Clerk/RFO and examined by the Internal Auditor included a copy of the HMRC P45 (Details of employee leaving Work) in respect of Mrs Shirley Weymouth, which displayed the date of leaving and the pay to date and the tax deducted to date.

9.2 It is understood that the electronic HMRC records of PAYE etc. are held by the previous Clerk/RFO and are currently not accessible to the current Clerk/RFO. The Council should note that it should securely retain the electronic copy of its PAYE data in case HMRC conducts an inspection at some point in the future and the data is called upon for examination.

9.3 A contract of employment for the current Clerk/RFO is currently being considered by the Council's Chairman and the Auditor examined a draft copy held by the Clerk/RFO.

Recommendation 9: The Contract of Employment between the Council and the Clerk/RFO should be promptly agreed and clearly state the Particulars of the Employment; Commencement Date; Job Title and Job Description (duties and responsibilities); Hours of work; Place of work (e.g. requirements in terms of working at office or at home); Details of any additional allowances payable (e.g. any 'working from home allowance' or 'telephone allowance'); Enrolment into Pension Scheme; Holiday entitlement; Arrangements in the event of Sickness and Disability; Conflict of Interest and Disciplinary and Grievance Procedures. Model documents are obtainable from the Norfolk Association of Local Councils.

9.4 With regard to the legislative requirements relating to workplace pension schemes, the Council is registered with the Pensions Regulator. This will assist to facilitate the arrangements the Council now need to make with the Clerk/RFO regarding the application of a pension scheme and the completion of a declaration of compliance to the Regulator under the Pensions Act 2008.

10. Assets controls.

10.1 A detailed Asset Register is in place; a total value of £793,059 was recorded as at 31 March 2017 and was been included in the Annual Return for 2016/17 (Section 2 Box 9). The Auditor was unable to confirm (from the limited information and Minutes available for examination) whether the Asset Register has been reviewed by the Council since that date. Accordingly,

Recommendation 10: The Council should formally review the Asset Register prior to 31 March 2018 in order to confirm that the record of assets held is up-to-date.

11. Internal Audit and External Audit requirements.

11.1 The Council is required to formally appoint an Internal Auditor to undertake an independent review and assessment of the Council's compliance with internal controls and procedures during the year 2017/18. This will include the completion of the Annual Internal Audit Report 2017/18 which forms part of the Annual Governance and Accountability Return (AGAR). The Council may select to appoint a suitably qualified Internal Auditor from a number of sources, including the local Association of Local Councils if necessary.

11.2 On 30 November 2016 the Smaller Authorities' Audit Appointments (SAAA) announced the conclusion of its procurement process and the award of limited assurance review contracts for five years to the successful external audit firms. The SAAA appointed PKF Littlejohn LLP as the External Auditor for Hemsby Parish Council for the five financial years from 2017/18 to 2021/22. It is important that PKF Littlejohn LLP is made aware of the change of Clerk/RFO. PKF Littlejohn LLP can be contacted at SBA Team, 1 Westferry Circus, Canary Wharf, London E14 4HD; e-mail sba@pkf-littlejohn.com or telephone 020 7516 2200.

11.3 No issues of concern were raised by the External Auditors, Mazars LLP, following their review of the previous year, 2016/17.

12. Moving Forward – A Plan of Action.

12.1 **The over-riding priority for the Council and the Clerk/RFO** is to ensure that all necessary financial information and data is provided to the current Clerk/RFO as a matter of urgency in order that both the Council and the Clerk/RFO are in a position to fully meet their responsibilities in terms of securing and maintaining adequate and effective financial administration and control. It is also essential for the Clerk/RFO to

have all necessary information and documentation, bank statements and cheque books/counterfoils for the period 1 April 2017 to 31 December 2017 in order for her to prepare the Final Accounts for the 2017/18 year (see Recommendation 1 above).

12.2 The key actions required to be performed before the end of year date of 31 March 2018 are as follows:

- a) The Council should ensure that a review of its Internal Control and Risk Management procedures and documentation takes place (and Minuted accordingly) prior to the 31 March 2018, in order to comply with the Accounts and Audit Regulations 2015 (see Recommendation 7 above). This should include a review of the Risk Assessment arrangements for the Children's Play Equipment (Recommendation 6 refers);
- b) The Council should finalise a formal Contract of Employment for the Clerk/RFO (see Recommendation 9 above);
- c) The Council should formally review the Asset Register in order to confirm that the record of assets held is up-to-date and that the correct figures can be entered into the Annual Governance and Accountability Return (see Recommendation 10 above);
- d) The Council is required to formally appoint an Internal Auditor to complete a detailed Internal Audit Report for the year 2017/18 and to complete the required Annual Internal Audit Report in the Annual Governance and Accountability Return for 2017/18 (see item 11.1 above);
- e) The Council should advise the Council's External Auditors, PKF Littlejohn LLP, of the name and address and contact details of the Council's new Clerk/RFO (see item 11.2 above);
- f) The Council should register with the Information Commissioner's Office as a Data Controller for the provision of council services and start to prepare for the application of the new General Data Protection Regulations that will apply from 25 May 2018 (see Recommendation 3);

12.3 There are some actions that, given the limited amount of time available until the end of the current financial year, will need to be undertaken on a programmed basis during the year 2018/19, as follows:

- a) Prior to the date of renewal of the insurance policy (31 May 2018) the Council should undertake a comparison between the items listed in the Asset Register and those included within the schedules of the Council's Insurance Policy (Recommendation 8a refers) and, if appropriate, obtain a number of quotations from insurance providers for consideration at the time of insurance renewal (Recommendation 8b refers);
- b) Adopt the latest NALC Model Standing Orders and Financial Regulations as soon as practically possible and no later than the end of the 2018/19 year in order to comply with current legal requirements and procedures (Recommendation 2 refers);
- c) Confirm that the most recent model Code of Conduct is being used by the Council (see Recommendation 4 above);
- d) Review the Policies and Procedures in place to ensure that they are meeting the Council's current requirements and that they are correctly applying the latest statutory and regulatory requirements (see Recommendation 5 above)

13. Additional Comments.

13.1 I would like to record my appreciation to the Mrs Elaine Galer, the Clerk/RFO, for her assistance during the course of this audit work.

13.2 In the event of the Council or the Clerk/RFO requiring further details or explanation regarding any of the issues raised above please do not hesitate to contact me.

Trevor Brown

Trevor Brown, CPFA

Internal Auditor

27 February 2018