**CASTLE DONINGTON Parish CouncIL**

**INTERNAL AUDIT –FINAL (DRAFT)Report 2021/22**

**1. REVIEW of Internal Controls**

This review of key internal controls is based on the minimum recommended internal controls for parish councils (and Non Statutory Guidance for Internal Audit) in the “NALC Practitioners’ Guide on Accountability and Governance for Parish Councils (2021)”.

The review of internal control arrangements was carried out during a site visit on 14th February and 24th May 2022, to support internal audit’s “assurance rating” on the Council’s internal controls for 2021/22. This independent review contributes to the overall review by Councillors, when completing Part 3, Section 1 of the Governance Statement in the Annual Governance and Accountability Return (AGAR) for 2021/22.

***Seven recommendations for improvement in internal control were made at the Interim Audit and following a further review, I am satisfied that improvement action has been taken or is in hand, as recorded at the end of this report.***

**2. Internal Control Assurance Rating 2021/22**

**Overall Assurance Rating**

Table 1 below shows the individual internal control assurance ratings, gained from the current review, plus previous knowledge. From these individual control assurance ratings, an “Overall Assurance Rating” of the Parish Council’s internal controls is that they are **GOOD** but there is room for improvement - please refer to table 2 below for an explanation of assurance ratings.

***TABLE 1***

**Individual Internal Control ratings**

|  |  |  |
| --- | --- | --- |
| **Area of Internal Control** | **Assurance Rating** | **Comments** |
| * Proper bookkeeping | SOUND | A computerised accounting web based system (SCRIBE) is in place and automatically posts input to the respective ledger accounts and produces management reports as required. These underlying records support the Annual Financial Statements in for the Annual Governance and Accountability Return (AGAR). The accounting software converts Receipts and Payments summary reports into Income and Expenditure (accruals) to comply with proper financial reporting arrangements (in AGAR) for Parish Councils’ whose total transactions exceed £200,000.  Scribe is a web based system which allows staff/bookkeeper/to work from home (as happened during the period of COVID lockdown). “Read only” access is available to councillors and internal audit. Read only access was compliance tested (for internal audit) and confirmed.  Data input from prime documentation is carried out by a self-employed bookkeeper who works on site and manages the accounting system. |
| * Standing Orders | SOUND | Model Standing Orders are reviewed annually and approved by full Council–previously done in March 2021. |
| * Financial Regulations | GOOD | Model Financial Regulations (FRs) are reviewed annually and approved by full Council –the next annual review is planned for June 2022.  Arrangements in relation to quotations and tenders were compliance tested and confirmed.  A review of the documented procedures in FRs for the authorisation of the different methods of paying suppliers may require FRs to be further amended to reflect current internal checks in place, especially for instructions to the bank for BACS payments:-   * The principal method of paying suppliers is by internet banking (BACS). The Clerk, is responsible for setting up BACS accounts, certifying invoices for payment and instructing the bank to make the BACS payment (after invoices have been approved by the Council). This would appear to represent a lack of segregation of duties, however, the Clerk is assisted by the Bookkeeper in this final process and two councillors carry out a retrospective check to verify the legitimacy of all invoice payments. **Following the interim audit, improvements in internal control have been made** -**see Recommendation R1** * As stated above the self-employed Bookkeeper assists the Clerk in carrying out an internal check on the BACS payment instruction to the bank. In view of this, FR 6.15 will need amending as it states that this function is to be carried out by employees. **Following the interim audit, improvements in internal control are in hand.** -**see Recommendation R2** |
| * Payment controls | GOOD | Substantive testing of expenditure payments (for period April-Dec 2021), confirmed the accuracy of invoice payment entries into accounting system. The audit trail from the monthly payment print to the files of authorised paid invoices was easy to follow, since each paid invoice recorded the SCRIBE transaction number or Direct Debit (DD) indicator.  (However, see comments above under Financial directions)  VAT was properly accounted for.  Invoices bear the initial of the Clerk to indicate appropriate checks have been undertaken as required by FRs 5.3.and 5.4; however invoices do not record an approved budget code. This is allocated when the invoice is input to the financial ledger.  An improvement in internal control would be to formally evidence that detailed checking procedures have been carried out (by the Clerk), by appending a certificate (certification stamp) on the invoice.  In addition to the above, two councillors review the list of payments prior to council approval and sign/initial paperwork to confirm this. **Following the interim audit, improvements in internal control are in hand.** - s**ee Recommendation R3** |
| * Risk management arrangements | SOUND | Potential risks facing the Council are continuously under review and the risk register is updated annually. The next review is scheduled for May 2022. The register was reviewed and found to contain relevant financial risks facing the Council.  Fidelity insurance cover was reviewed and found to be adequate. |
| * Budgetary Controls | SOUND | Financial Regulations (FRs) state that formal budget reporting can be done from “time to time” and in normal circumstances this is done quarterly. Because the accounting system is web based it allows members to monitor spend against budget at any point in time (Report “Summary of Receipts and Payments by Cost Centre”).If requested, the Clerk provides an additional explanation for significant variances of expenditure to the budget. When the annual precept is prepared it includes written explanations for significant variances. Budget information is also published on the council’s website. |
| * Income Controls | GOOD | The principal source (88%) of budgeted income in 2021/22 is from the precepting authority and receipt of this income has been confirmed. The balance of other sources of income is analysed over 12 other cost centres. Material income from the various sources was compliance tested and agreed to the underlying records.    In addition to normal budgeted income, is refunding of the VAT on supplier invoices, less VAT received from the Council’s chargeable activities. Claims for refunding VAT are done quarterly, which was confirmed, as well as receipt of income from HMRC for the period ending December 2022.  **Cemetery income**  Cemetery control record (Notice of Interment) at front of each interment file records fees received and there is a separate invoice for the fees due. When fees are received, the Interment control record is marked “Paid” but the date is invariably not recorded nor is this shown on the hard copy invoice. Neither document has a cross reference to the Receipts ledger transaction numbers. - **Following the interim audit, improvements in internal control have been made** -**see Recommendations R4 & R5**  **Income from Wakes fun fair**  Income due from stall holders is recorded on an Excel spreadsheet. Almost 60% of the income from stalls is in cash. Amongst other thing recorded on the spreadsheet are the site number, name of the stall holder, method of payment and receipt number. A brief examination of the spreadsheet for 2021/22 revealed some omissions in record keeping and in the receipt book in use.  A column on the WAKES income control sheet shows the date that income was paid over but this was evident for only 6 out of 49 remittances. There is no column showing the date income was banked.  However, the spreadsheet and cost centre report are checked to ensure the total expected is actually banked.  Limited compliance testing of receipt books revealed one transaction R55 5/10/21/for £116.00 that was not brought to account or banked until 23/11/21 (49 days after it was received). It was explained that this was an advance payment and banking was delayed due to the Pandemic and the uncertainty of the event taking place and early banking would have complicated records (if the event had not taken place).  Although FRs do not specify a time period when income should be brought to account (i.e. recorded in the accounting system or banked) such a long delay as outlined above could demonstrates a weakness in internal control procedures, potentially putting income at risk.  The receipt books in use are in triplicate but:  - are not headed with the parish name and address, although one book did have the parish name stamped on the customer page only  - numerous receipts did not record the date income was received making an inadequate audit trail.  **Following the interim audit, improvements in internal control have been made** -**see Recommendations R6** |
| * Petty cash procedures | Not Applicable | No petty cash is held. |
| * Payroll controls | SOUND | The Payroll (Salaries/pension (Aviva) /Tax deductions) is processed by the self-employed Bookkeeper. Variable data, such as time sheets changes to salary are authorised by the Clerk and submitted to the Bookkeeper for processing.  Payroll payments were compliance tested for the period April –December 2021 and confirmed to payroll records (payslips) and NI returns. |
| * Asset controls | SOUND | An Asset Register is in place and is updated during the year as well as at the end of the year. The value of assets in the asset register was agreed to the financial statements for 2021/22. |
| * Bank reconciliations | GOOD | A Bank reconciliation statement is produced when bank statements are received and signed off as checked by the Clerk. Two councillors initial the amounts recorded for each bank account (from statements) but not the cash book ledger print balances.  Upon examination of monthly bank reconciliations since April 2021, it was revealed that that there were no ledger prints taken to support cumulative balances of Receipts or Payments and no ledger print to support the balances of Unpresented Payments or Unpresented receipts. The Bookkeeper explained that obtaining retrospective cumulative balances of Receipts and Payment to support previous bank account reconciliations was not possible as to do so could corrupt current data.  The year- end bank reconciliation was agreed to the underlying records.  **Following the interim audit, improvements in internal control have been made- see Recommendation R7** |
| * Year-end procedures | SOUND | The financial statements were prepared on an Income and Expenditure basis in accordance with guidance issued with the Annual Governance and Accountability Return (AGAR). The financial statements are audited by the statutory external auditor. |

***TABLE 2***

**The range and explanation of Assurance Ratings is as follows**:

|  |  |
| --- | --- |
| Audit Opinion | Explanation |
| SOUND | Minor risks have been identified |
| GOOD | Some risks have been identified |
| MARGINAL | A number of risks have been identified and changes should be made |
| NOT SATISFACTORY | Unacceptable risks have been identified and changes should be made |
| UNSOUND | Major risks exist and fundamental improvements are required |

**3. Internal Control Recommendations**

The following recommendations are made to improve internal control arrangements:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Area of Internal Control** | **Weakness** | **Risk** | **Recommendation** | **Officer**  **Responsible** | **Agreed Action and implementation date** |
| **R1**  **R2** | **FINANCIAL REGULATIONS:**  **BACS Instructions** | Financial Regulations do not clearly reflect the segregation of duty arrangements on issuing instructions to the bank for BACS payments.  The self-employed Bookkeeper assists in the process of issuing instructions to the bank for making BACS payments. However, FR 6.15 states that this function is to be carried out by an employee of the Council. | Unauthorised BACS payments may occur.  Non-compliance with Financial Regulations. | Financial Regulations (and possibly the bank mandate) need to be amended to reflect approved segregation of duties on instructions to the bank for BACS payments.  The model Financial Regulations need to be amended to reflect approved internal checking arrangements to include non-employee(s). | **Council/Clerk**  **Clerk** | The next annual review of FRs with the Parish Council is scheduled for the June meeting.  As above. |
| **R3** | **PAYMENT CONTROLS** | Lack of formal evidence on invoices to confirm: - goods received, invoice price, comparison against orders and approved budget cost centre. | If no detailed certificate there is a potential for an oversight in carrying out checks on invoices as required by FRs. | Invoices to be authorised for payment by the council, should bear a detailed certificate to show :  -goods and services have been received,  - the price charged agrees to order/quotation,  - the invoice is arithmetically correct,  - an allocated budget cost centre  (this acts as internal check on the accuracy of financial ledger) | **Clerk** | A procedure note is now in place that clearly documents the invoice checking arrangements to be followed.  **Consideration will be given to improving the evidencing of checks carried out, by appending a certification block on each invoice to be completed.** |
| **R4**  **R5**  **R6** | **INCOME:-**  **Cemetery**    **WAKES**  **Receipt stationery (WAKES)** | The interment control file which includes a copy invoice does not record the date income has been received or a transaction reference to the main accounting system.  The control record for income from WAKES was found to be incomplete**.**  Numerous receipts were undated and on one occasion banking and recording of income in the main accounting system was significantly delayed. | Lack of audit trail  Inadequate audit trail  Inadequate audit trail and potential for loss of cash income. | (i)To improve the audit trail, the Cemetery control record (notice of Interment) and the copy of Debtor invoice, should also be marked with the date fees are paid over and with a cross reference to the Receipts transaction number in the ledger.  (ii)The Notice of interment should be amended to include “Date…… “next to “Fees received”.  Detailed financial procedure notes should be drawn up for the WAKES income control spreadsheet to ensure  - the date when cash collected has been banked is recorded  - there is a cross reference to relevant bank paying in slip  - data entry to the main accounting system (trans action number)  - collection and security of cash in transit prior to banking  - regularity of banking    (i)Detailed financial procedure notes should be drawn up and issued to holders of Receipt books.  (ii)Receipt books currently in use should be replaced with parish headed, pre-printed controlled stationery in triplicate.  (iii)Receipt books in stock and circulation should be separately recorded and signed for and that record and receipt books should be independently checked from time to time by management.    (iv)Spoilt receipts should be retained in the receipt book.  (vi)Evidence should be retained of a reconciliation of the Wakes income spreadsheet with the cost centre report. | **Clerk**  **Clerk**  **Clerk**  **Clerk** | A procedure note covering recommended arrangements to maintain an adequate audit trail is now in place and issued to the relevant staff.  **(A further review to improve cross referencing of all income documentation is in now in hand.)**  A detailed financial procedure note has been drawn up and issued to relevant staff.  As above |
| **R7** | **BANK RECONCILIATIONS** | Two councillors, check the bank reconciliation, but only verify bank account balances.  Other balances in the cash book for  (Receipts and Payments/ unpresented cheques and unbanked income) could not be verified by internal audit as the relevant ledger prints for the dates of the bank reconciliations were either not obtained at the time of reconciliation or not retained. | Lack of audit trail | (i)In future, all balances appearing on the bank reconciliation should be initialled to confirm that they have been agreed to subsidiary records. In addition, the certificate at the top of the reconciliation should be signed of off by Councillors and the Clerk/RFO (to indicate that **all balances** have been confirmedto subsidiary records).  (ii)A copy of subsidiary records that support balances in the bank reconciliation should be retained for audit purposes. This should include an analysis of unpresented cheques and unbanked income.  (iii)Advice should be sought from the SCRIBE provider as to whether it is possible to obtain retrospective data prints without corrupting current reports. | **Clerk and Councillors** | A procedure note covering recommended arrangements to be followed by office staff and Councillors is now in place. |

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