

FELTON PARISH COUNCIL

INTERNAL AUDIT REPORT FOR 2018-19

1 Introduction, purpose and background

An internal audit has been carried out to evaluate the effectiveness of Felton Parish Council's (FPC) risk management, control and governance processes taking into account internal auditing guidance for smaller authorities, as contained in the Governance and Accountability for Smaller Authorities in England (JPAG).

The legislation underpinning this is the Local Audit and Accountability Act 2014 which replaced the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011.

Whilst the minimum reporting requirement for internal audit to the smaller authority can be met by completing the annual internal audit report (page 3 of the annual return), internal audit may also report in greater detail to the authority as required. The audit undertaken for 2017-18 was supported by a concluding report outlining findings and recommendations and was submitted to FPC for action.

This report supports last year's review and comments where appropriate.

It is pleasing to note that positive progress is being made by FPC in addressing the reported areas of weakness. In this respect the council should be congratulated.

Actions to address the weaknesses commenced during the latter part of the 2018 year with some of it having to be carried forward into 2019-20. The consequent weaknesses in control objective will therefore remain until resolved.

Felton Parish Council is a smaller authority above the £25k threshold, and therefore classified as a 'non-exempt' authority.

2 **Income:** £40,495 **Expenditure:** £31,559 **Reserves:** £59,938

Accounts are prepared on a receipts and payments basis (i.e. cash accounting).

3 Proper book-keeping

Cash book, regular reconciliation of books and bank statements, supporting vouchers, invoices and receipts.

Records were found to be well presented to enable a sample of receipt and payment transactions covering both committees i.e. FPC & FCJC.

The sample was tested and tracked through the cash books to the bank records and subsequent financial statements produced for the council for approval.

The relevant supporting source documents were suitably cross referenced.

Included in the sample was the purchase of a new business hub printer which has raised several queries/issues as it was purchased by the council on behalf of Felton's Bridge Magazine publication to replace an existing printer purchased 5 years ago.

1 Standing Orders

The purchase price was £4993 excl VAT – Standing orders state '3 quotations should be sought' for purchases above £2000. Only 2 were sought because of the difficulty of obtaining a 3rd quote and FPC therefore agreed to the purchase on this basis.

The use of the word 'should' is not considered strong enough as it can be interpreted to suit a situation accordingly enabling the standing order to be waived, and therefore reducing the effectiveness of the control.

Where considered necessary for standing orders to be waived they need to describe the additional controls necessary to ensure probity.

2 The relationship between FPC and the Bridge Magazine is not formalised.

Over the life of the previous printer, the Bridge Magazine would appear to have earned sufficient income from annual donations of £300 from the FPC, advertising and other printing to pay its own maintenance and supplies. Additionally on purchase the Bridge Magazine donated a sum of £4991 to FPC.

It was reported there was no residual value from the old printer. The replacement printer is recorded in FPCs asset register.

The purchase will benefit from a VAT claim of just under £1k which has been submitted to HMRC.

It is considered essential to ensure this is a legitimate enterprise for FPC to be involved in by formalising the arrangements between the two parties so it meets governance and financial controls, and is one that can stand the test of scrutiny by external bodies such as audit and HMRC.

4 Governance and internal financial control

Policies and Procedures

All councils are required to prepare, consider and minute approval of key governance and internal financial control processes either annually or periodically.

During the year a Policy Working Group has been set up. They are currently reviewing and updating all policies and procedures, in particular FPC's Standing Orders and Financial Regulations and using models contained in the National Association of Local Councils guidance, as recommended in last year's audit.

This is considered a priority going into 2019-20. As previously mentioned the reviews are shown within the minutes and it may be appropriate to show the minute number within the relevant document header (or title) for clarity once approved by the committee.

Felton Cemetery Joint Committee

FPC is the lead authority for the Felton Cemetery Joint Committee (FCJC) of which there are 2 other authorities, namely Thirston, and Newton on the Moor & Swarland.

Although the Joint Cemetery Committee terms of reference has been revised during 2018-19, it is currently awaiting formal adoption by each of the 3 parish councils.

Recreation Field Committee

There is a sub-committee of FPC, called the Recreation Field Committee, which aims to manage and develop facilities of the Recreation Field.

This committee continues with outdated terms of reference.

Disclosable Pecuniary Interests (DPI)

The Good Councillor's guide to finance and transparency contains a section on DPI. A review of councillor's completed DPI's was undertaken.

- Conflicting disclosures were apparent for 2 councillors with respect to what 'type of body' the Bridge Newsletter is.
- Councillor's family members who are in receipt of pay/contract income should be disclosed.

It is recommended the records are reviewed and updated accordingly.

5 Transparency code

The Smaller Authorities Transparency Code came into force in 2015 and requires those authorities to publish online information about their activities, spending and governance. The main aim is to hold public bodies to account.

Felton Parish Council places material relevant to their activities on the web-site <https://northumberlandparishes.uk>.

Section 3 of the existing Standing Orders outlines the process and timescales for publishing meeting agendas and subsequent draft and approved minutes. The web site has shown several months of minutes bearing the DRAFT watermark which may be unclear to members of the public as to their actual status i.e. whether formally approved or not. The DRAFT watermarks have since been removed.

6 Budget and Precept for 2018-19

The budget and Precept of £19k were approved by the committee in January 2018 and was compliant with timescales shown in the Standing Orders.

The methodology in setting the FCJC budget has changed during 2018-19 and now uses the median value of anticipated deaths, and may result in less of a skew in FPC precept income in the budget setting process.

7 Budgetary monitoring

The Clerk prepares a finance summary for presentation to the council meeting which is incorporated into the minutes.

As the lead authority, it is necessary for FCJC receipt and payment transactions to be incorporated into the accounts of FPC.

Until such time as the guidance on reporting the component cemetery committee shares is explicit, the RFO is using the guidance contained in JPAG and providing a detailed explanation of variances for external audit purposes. This approach is supported.

8 Clerk salary and other employee wages and expenses

The clerk is salaried and wages are paid to the cemetery grounds maintenance staff. Additionally expense payments are made to the grounds maintenance support and the cemetery clerk.

Payroll information is uploaded by the clerk for all employees on to the HMRC website which calculates tax and NI, employee and employer contributions and the amounts to send off to HMRC.

The arrangements for the payment of the grounds maintenance wages differ, whereby a committee member emails the clerk with total hours needing to be paid at the end of each month.

Salary, wages and expenses are reported at the monthly council meetings and forms part of the minutes for approval.

9 Bank accounts and reconciliation

The parish clerk has delegate access only to the bank accounts. 3 parish councillors have on-line access to the Lloyds Bank account and any 2 are required to 'release' payments that have been set up by the parish clerk. Similarly, 2 from the above 3 signatories sign cheques prepared by the clerk and as a consequence segregation of duties is achieved with an adequate level of control.

Bank accounts are reconciled to the cash book monthly and at the year-end by the clerk and independently reviewed.

It is good practice for reconciliations and bank statements to be signed to indicate the check.

The year-end reconciliation was checked to the final accounts during the audit.

10 Overview and conclusion

As noted earlier, there have been positive steps taken in addressing areas of weakness in governance and internal financial control at Felton Parish Council with some of the tasks having to roll in to 2019-20.

Clear and comprehensive statements of receipts and payments have been presented to the monthly council meetings. The work has enabled members to make decisions on budget preparation, budget monitoring and precept calculation and has enabled the audit to be carried out.

Addressing the points identified during the audit should serve to strengthen risk management, transparency, control and governance processes.

My thanks go to the Parish Clerk for her assistance in undertaking the audit.

Patrick Canner
MAAT and Accredited Counter Fraud Specialist (NHS) retired
28 June 2019