

Bearsted Parish Council

Internal Audit Report for the year ended 31 March 2017

I have completed the year-end internal audit of the Council's records for the year ended 31st March 2017 and signed off the Annual Return (Annual Internal Audit Report) on 22 June 2017.

Members should be aware that my work cannot be relied upon to identify the occasional omission or insignificant error, nor do I actively seek evidence of breaches of trust or statute, neglect or fraud, which may have taken place. It is the responsibility of the Members of the Council to guard against such events, but if during my audit testing such events are discovered I am duty bound to disclose such events to the Council.

I would like to take this opportunity to thank the Clerk & RFO, Sarah Lewis and Ms Helen Munro for their assistance given to me during this audit.

Previous Audits:

External Audit 2015-16

The external auditors PKF Littlejohn LLP signed off Section 3 of the Annual Return for the year ended 31 March 2016 on 29 September 2016. There were several "other matters" raised by the Auditors. The most important one of these was that the Council did not comply with the proper provision of the exercise of public rights, which means that an answer NO must be put against Assertion 4 in the Governance Statement for 2016-17. There was an error in the year-end bank reconciliation and the amendments made to the 2015-16 Statement of Accounts had not been initialled and dated.

Internal Audit 2015-16

Last years' internal audit was conducted by Mr Kevin Funnell. There were no matters for me to follow up.

Year-end Internal Audit 2016-17:

The internal audit covered all the internal control objectives listed in the Internal Audit Report of the Annual Return as detailed in my Audit Plan as summarised in the 2016 Practitioners' Guide to Proper Practices applied to Smaller Authorities. The visit concentrated on the year-end accounts and the requirements for the completion of the Annual Return Section 2 (Accounting Statements), the Asset Register, VAT claims and inspection of the payment arrangements including payroll. Other matters included risk management, insurance cover and service specific issues such as the burial records.

Following my visit there are some observations I wish to bring to Members' attention.

Findings

Council's Website, Policies and Procedures:

One of the first things I do when starting a new Internal Audit is to look at a Council's website just like any resident of Bearsted could with access to the internet. On the "home" page there is a note advising of the appointment of the new Clerk, Sarah Lewis and an acknowledgement that some pages are out of date.

The Clerk is aware of the statutory responsibilities of having access to the Disclosable Pecuniary Interests (DPI's) of all the Councillors and the Annual Returns on the website. The DPI's can be viewed via a tab attached to "The Council" tab on the home page. There are currently 10 Councillors listed. **Post Audit Note:** The Clerk has advised that there are currently 14 Councillors and will be emailing them for updated information and plans to carry out a website rejuvenation before September 2017). The Annual Returns from the year ending 31 March 2016 must be posted to the website in its "unaudited form" at the same time as the Notice of Public Rights, which must also be made available on the Council's official noticeboards during the "public inspection of the accounts". Once the Annual Return has been signed off by the External Auditor, PKF Littlejohn (Section 3 of the Return), the Section 3 must be published on the Noticeboards along with the Conclusion of Audit Notice. Both Section 3 and the Conclusion of Audit Notice must join the Sections 1 & 2 of the Annual Return on the website and remain there for 5 years.

The Conclusion of Audit Notice is not with the Annual Return for 31 March 2016. This needs to be rectified as soon as possible as PKF Littlejohn, the External Auditor will be checking parish/town websites for compliance with this new regulation. The Notice of Public Rights and the two-page summary of local elector's rights is on the website for the Annual Return for 2016-17, together with copies of the signed Sections 1 & 2 (Annual Governance Statement and Statement of Accounts for 2016-17) on the website. The Audit documents are on the same webpage as the Council's Budgets, at the moment there is no 2017-18 Budget information available.

Within the Council section of the website there is a "policy" section which includes policy documents relating to the Council as an employer and a business such as a Lone Worker Policy, Capability Policy, Procurement Policy and Complaints Policy. It also includes the two core documents, the Councils Standing Orders (adopted 10 June 2014) and Financial Regulations (adopted 10 May 2016). All these policies should be reviewed on a regular basis to keep up to date with current working practices and legislation. The Standing Orders need reviewing this year.

Insurance/Asset Register/Risk Management:

The Council has a Long-Term Agreement (LTA) for insurance cover with Hiscox, which expires on 30 September 2019. The policy includes a Fidelity Guarantee up to £250,000, as well as cover for buildings and play equipment. At the current level of Reserves (see further comment later) the Council needs to review the level of Fidelity cover. The policy includes event insurance for the Annual Firework Display on the Elizabeth Harvie Field, which has a good risk assessment template in place.

Regarding Risk Management the Council approved a Financial Risk Assessment on 1 June 2017 and has an Internal Control Procedures policy in place. There needs to be a Risk Assessment Register for all the other risks, such as those related to the various buildings owned/used by the Council, the playground equipment and allotments etc. I understand risk assessments exist but they need to be brought together into one Risk Register including the financial risks. The Council must review all its risks annually to comply with the Annual Governance Statement "assertion" number 5. One of the high-risk areas for every council are play areas and the associated equipment. The Council pays Maidstone BC for a monthly inspection report.

The Clerk gave me a copy of the Asset Register, which did not tally with the declared asset values in previous Annual Returns. I worked with the Clerk to arrive at a "restated" value of the assets back to either their original cost where known or a suitable "proxy" value. I have already provided the Clerk with a suitable note to explain the "restatement of the assets" in Box 9 for the year-ended 31 March 2016 for the benefit of the External Auditor, PKF Littlejohn. The commercial concepts of depreciation or appreciation of assets does not apply to parish accounts. I would

strongly recommend that a digital photographic library of assets is created to sit alongside the Asset Register. This will help identify assets held by the Council but would also help in the case of an insurance claim with a “before” and “after” photograph.

Budgetary Control/Cashbook:

The Council’s accounting records are maintained on the AdvantEdge accounting package, a system I have never seen before. I gather the reporting features are limited (F&GP Min 4 – 1 Feb 2017). Due to the Clerk vacancy, there had been a reduced budgetary control exercised during the year. The Council contracted Ms Nicola McGuire in early January 2017 to provide financial support on a part-time basis (F&GP Min 5 - 4 Jan 2017).

The draft 2017-18 Budget was reviewed by the Finance & General Purposes Committee following submission of the Committee Budget requests on 4 January 2017. The F&GP were minded to recommend to full Council no increase in the Band D levy, subject to the final Tax Base figures from Maidstone BC. The full Council considered the Budget and Precept Request for 2017-18 at the meeting held on 10 January 2017, reviewing each Committee’s proposed budget compared to 2016-17 budgets. It was agreed to keep the Band D figure unchanged at £32.70. The forecast Tax Base for 2017-18 was higher, hence the Precept Request would be increased accordingly.

The Council computer systems are backed-up on Dropbox, a cloud based storage facility. The Clerk has advised that the Council will moving over to using OneDrive, which is part of Microsoft Office 365 subscription but hasn’t been utilised. The OneDrive has a 1TB capacity. The Council has also employed the services of an IT Support company who will lease computers to the Council and will provide both software and hardware support.

Payments, Payroll (Inc. contracts) & Income:

The Clerk & RFO was the only employee during 2016-17. The post was originally held by Ms Michelle Rumble up until August 2016. The current clerk Mrs Sarah Lewis (25 hrs per week) did not take up the post until 15 May 2017. As mentioned earlier Ms Nicola McGuire was contracted on a temporary part-time basis to help with the accounts. The Clerk informed me of the proposal to recruit an Assistant Clerk on a 16 hrs per week basis. **Post Audit Note:** Ms Erin Sugden commenced employment in August 2017. The Council has established a Workplace Pension with NEST and is registered with the Pensions Regulator. There were also 15 Councillors who received a Councillors Allowance, which went through the Payroo payroll software managed in-house.

There is a standing Finance item on the Council agenda and F&GP agenda, which includes a schedule of payments to be approved by Council. There is no listing within the Minutes of either Committee and no lists of approved payments shown on the Council’s website. It is best practice to at least show the list of payments (including any regular direct debits & standing orders) approved in the Minutes, which should be a “copy & paste” of the schedule provided to Councillors. The Government expects local councils to be open and transparent. **Post Audit Note:** The Clerk has recently introduced this style of minuting as used by her previous employer.

A VAT claim submitted for the 2015-16 financial year totalling £7,456 was received on 6 June 2016. The amount of VAT paid in 2016-17 amounted to £10,025, which will be reclaimed during 2017-18. I would recommend that the Clerk submits a VAT claim every half-year at least.

Banking Arrangements & FSCS Protection:

At the year-end 31 March 2017, the Council had huge cash balances of £293,834 more than twice the level of the Precept. The Clerk will have been required to submit a note to the External Auditors explaining why the level of reserves are this high. I did not notice any reference in the Minutes relating to a discussion about the level of reserves as part of the Budget and Precept decisions for 2017-18. The levels of reserves should be reviewed at least annually, which is normally done as part of the Budget/Precept setting. The Council needs to demonstrate a clear rationale for holding this level of Reserves and have a strategy for using these Reserves.

The money is held in three NatWest accounts. Councillors should know that local councils are now eligible for FSCS investment protection, the current threshold being £85,000 per total investment holding by FSCS registration. To take advantage of this protection will require transfer of the approximately £200,000 to other investments to maximise the FSCS protection. I would suggest the F&GP Committee consider the spread of the Councils investments to take advantage of the FSCS protection. I noted that the local branch of NatWest has closed, perhaps it is time for a change of bank, with good internet banking facilities like the Unity Trust Bank.

David J Buckett CPFA DMS

16 August 2017