

Griffin

Chartered Accountants

Internal Audit Review
Broadclyst Parish Council



Broadclyst Parish Council

Field visit date: 15 March 2023
Issued by: Michael Jarrold

1. Basis of the report

The public accountability framework sets out the legislative responsibilities for local councils. A key requirement on local councils is to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control' and it is in this capacity that we are making this report.

Timetable of work

To fulfil these obligations, Griffin will carry out two visits to the council each financial year.

Over the course of the year our work we will cover the following key areas:

- Purchases and cash payments
- Payroll
- Income and cash receipts
- Fixed assets
- Financial budgeting and monitoring
- Risk management
- Year-end procedures

Our work will establish the existing systems that the council has in place, test whether these systems are being followed and make suggested improvements.

Work completed 15 March 2023

Purchases and cash payments

- Walkthrough of purchase systems
- Controls testing on a sample of purchases
- Tender/quotation process review
- Review of bank reconciliations
- Staff permissions and segregation of duties
- Staff expense claims
- Related party transactions
- VAT treatment and reclaims

Financial monitoring and budgeting

- Approval of budget by council
- Financial information provided to councillors
- Finance Committee meeting frequency and appropriate review

Income and cash receipts

- Confirmation of precept amount and receipt in full
- Processes and controls around cash receipts
- Review of investments and investment policy
- Bad debt recovery procedures

Risk management

- Councillor interests and related parties
- Review risk register

Payroll

- Payroll controls testing
- Review of timesheet/overtime procedures
- Starter/leaver procedures reviewed

Fixed Assets

- Process and procedures around the acquisition and disposal of fixed assets
- Maintenance of a fixed asset register
- Authorisation of fixed asset additions

2. Update on previous findings

	Finding	Recommendation	Priority	Management Response
1.	Staff expense claims There was no supporting documentation to support the purchases being made by staff on their expense claim forms.	We recommend that staff expense claims are only authorised when supporting documentation has been obtained, a copy of which should then be kept with the claim form. This will minimise the risk of fraudulent claims being made. March 2023 update: All expense claims tested had supporting documentation attached to the claim forms.	  	February 2022 response: I agree that this is of great importance and is usually strictly adhered to. The receipt that was missing was a claim for meeting expenses for a member of staff who was working remotely during Covid and isolating due to caring responsibilities for vulnerable relatives. As remote working has now ended, I do not anticipate this issue recurring.

3. Work completed

Work completed		Result	Conclusion
Purchases and Cash payments			
1.	Review financial regulations and standing orders Obtained and reviewed the financial regulations and standing orders to ensure they're appropriate and up to date.	The financial regulations provided during the internal audit are based on the model NALC regulations and have been suitably tailored so that they are appropriate for the council. The Clerk was aware of the contents of the manual and appeared confident in applying the controls appropriately.	No issues to note.
2.	Substantive testing of purchases A sample of purchases were selected at random from the system and traced through to ensure the financial procedures and key controls were being applied in accordance with our understanding. This included: – Ensure an order is in place for each transaction – Confirm the purchase is within budget – Ensure the purchase is appropriate having regard to value for money and regularity – Agree to supplier invoice – Confirm VAT treatment is correct – Confirm BACS run authorisation appropriate and in line with financial procedures	All purchases were fully signed off by appropriately authorised signatories and matched to corresponding invoices. Posting to the finance system and the treatment of VAT was appropriate in all samples tested. Payment's via BACS were authorised correctly and could be traced back to bank statements.	No issues to note.

3.	BACS run authorisation levels and procedures Reviewed the process for paying suppliers, including authorisation limits and segregation of duties. We then tested a sample of payments to ensure that the procedures were being adhered to.	The online banking system requires two signatures to authorise the payments online. However, there is still the ongoing issue whereby as the Clerk prepares the BACS run, they automatically become the first of the two signatories. Preferably, the Clerk would just prepare the payment runs, with two councillors then signing them off. The issue has been previously raised with the bank who have said that it is not possible to amend this. The Clerk has therefore continued to take further appropriate controls by way of bringing a paper copy of each payment run along to committee meetings and getting this paper copy signed by an additional councillor (third party signature). This has been tested during our visit and is clear that this process is being adhered to.	No issues to note.
4.	Bank reconciliation One month was selected at random and the bank reconciliation reviewed to confirm: - The reconciliation has been completed - There are no old items that need investigating - There is evidence of the reconciliation being reviewed.	The bank reconciliation was up to date with no old or unusual items. It was clear that the process is completed regularly and that it is subject to review and signed off in line with the Financial Regulations.	No issues to note.

5.	Tendering and quoting procedures The tendering process was reviewed as part of the work on the financial procedures manual. A sample of expenditure items over the tendering limits was then tested to ensure that the tendering process was being effectively put into practice.	The council's financial regulations stipulate that three quotations are required for expenditure greater than £1,000, or that the supplier is on the 'preferred suppliers' list. For most samples tested, the council's tendering procedure as set out in the financial procedures manual has been adhered to by either obtaining three quotes or using the "preferred suppliers' list. However, there was one instance where the tendering policy was not adhered to. There was a transaction for £15,984 in relation to two advertising bus shelters. The parish council has previously arranged on two occasions with Devon County Council and Stagecoach for other bus shelters to be put in, but these were not paid for by the parish council. The community wanted two additional bus shelters but there were no external funds to pay for these. The parish council therefore had to pay for these and chose to use the same supplier as the first two projects to install new shelters. However, a formal tender/value for money exercise was not performed. A copy of the preferred suppliers was obtained, and it is clear that this had been reviewed by the council on an annual basis.	See recommendation in section 4.
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6.	Segregation of duties Reviewed the access of different staff members to the council's financial system, Rialtas, as well as the authorisation levels with respect to bank payments.	A copy of the council's segregation of duties was obtained. This manual covers the segregation of duties across all areas, including purchasing, payroll, and income. The Clerk can set up a supplier and create and authorise a purchase. This leads to the possibility of one person being able to conduct the entire purchase process without secondary review. The backstop that the council has in place is that bank payments require dual authorisation and so a second person is always involved at the payment stage. This is a very common situation in a small finance team, as for practical reasons it makes sense for the Clerk to have access to all parts of the financial system. However, it does mean that the authorisers of the bank payments need to pay close attention to what is being paid, as otherwise the control is ineffective. The Clerk continues to be the only person who has a login to the finance system. If the Clerk were to be absent due to sickness, the Deputy Clerk would use the Clerks login, and an audit trail tracked using attendance records. As only two members of staff make up the finance team, the council feel the extra cost implications required to purchase additional logins continues to be unnecessary.	No issues to note.
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Income			
1.	Precept Confirmed the precept amount and that it has been received in full and posting onto the finance system is appropriate.	Agreed precept amount to offer letter and posting onto finance system was correct.	No issues to note.
2.	Cash receipts Confirmed the procedures around cash sales and what safeguards are in place to prevent misappropriation of funds.	One member of staff is responsible for collecting cash in relation to bookings of the pavilion and also the banking of this cash. This creates a potential control weakness whereby a booking could not be entered onto the system and instead the cash kept by the member of staff. This risk assessment has been properly documented within the council's risk register. Most hirers of the Pavilion do now pay via BACS, with only the occasional hirer paying by cash. Therefore, the council conclude that the total annual amount that could potentially be lost is minimal.	No issues to note.
3.	Investments and investment policy Confirmed whether the council hold any investments. If so, is there any investment policy in place and does it report on the progress of these investments.	The council has an investment policy. The council continues to hold current investments. No further additions were paid this year. The Clerk notes in quarterly meeting with Councillors how much interest the investment has returned.	No issues to note.

Financial monitoring and budgeting			
1.	Confirm approval of the annual budget by councillor and examine the budgeting process The preparation of an annual budget is a statutory task that must be undertaken by all local councils, irrespective of size.	The budget setting process is regarded as one of the most important finance roles that the council undertakes, and all the guidance stresses the importance of this being a complete process. The Clerk prepares an annual budget each year, considering future cost levels as the council continues to grow. This is then reviewed by the Finance and Governance Committee, before getting approved during the main council meeting. The 2022/23 budget was reviewed and approved by the board on the 13/12/2021. The 2023/24 budget was reviewed and approved on 16/01/2023.	No issues to note.
2.	Financial information provided to councillors The financial analysis and accompanying commentary provided to the council was reviewed.	The financial information provided to councillors is appropriate and should enable the council to make informed decisions. The Clerk provides commentary when there are variances compared to budget and suggests recommendations. A Balance sheet and payment schedule is also presented at each meeting.	No issues to note.

Governance, regularity and risk management

1.	Risk management Obtained and reviewed a copy of the council's risk register and ensured its approval by the board and the range of risks, including both financial and non-financial risks. If a risk register is not used, confirm the other systems in place to manage risk.	The risk register is laid out in an appropriate format and is comprehensive in covering all the areas we would expect. It lists the likelihood of each risk and also details out the main controls that are in place to mitigate each risk and covers the main risks that would be expected. It is reviewed on an annual basis by the Finance and Governance Committee and approved by the main council. Evidence obtained that the risk register was last reviewed and approved in March 2023.	No issues to note.
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2.	Related parties Related parties are individuals, companies, charities, or other organisations that are connected to the council by way of the councillors, or its senior employees. For example, if a councillor was the director of a limited company, that company would be classified as a related party. Related parties are important, as any transactions between them and the council carry the risk of being perceived in a negative light externally. For example, if a piece of work was given to a company of which a councillor is a director, there is a risk that the external perception is that the company in question has been favoured purely due to the close relationship it has with the council <u>Work done</u> Reviewed declarations of interest for Councillors and senior staff to ensure they are being completed and discuss the procedures that are in place to identify related party transactions.	All councillors' complete declarations of interest which are regularly updated and available to the public. Both the Clerk and deputy Clerk have completed up to date declarations of interest as well. The Clerk provided a list of all the related party transactions in the year with supporting workings and documentation. All payments were authorised by the Clerk and had third party approval via a council member.	No issues to note.
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Payroll			
1.	Payroll controls testing A sample of employees were selected from the monthly payroll and the following confirmed: – Ensure a signed contract of employment is held by the council – Agree salary/scale point to contract or latest pay award letter and the HR system – Ensure overtime has been approved – Recalculate pension and tax deductions – Agree net pay to BACS run and payroll reports	All employees tested had signed contracts of employment on file. Rates of pay were agreed to contract/pay updates and the HR system. Tax deductions and pension contributions were all calculated correctly and the correct amount had been paid to the employee via the BACS run.	No issues to note.
2.	Timesheet staff For a sample of timesheet staff the hours worked, and rate of pay was agreed to supporting documentation.	For timesheet staff tested, the amount paid per payroll was agreed to the timesheets and the hourly rates listed on the timesheets also agreed to staff contracts/ pay updates. Furthermore, all timesheets were authorised appropriately.	No issues to note.
3.	Staff expense claims For a sample of staff expense claims the amount claimed was agreed to supporting documentation and the bank.	All staff expense claims had been authorised and amounts were agreed to bank statements. All staff expense claims had supporting documentation.	See section 2 for update on prior year finding.

4.	New starters For a sample of new staff at the council the following was confirmed: - Salary confirmed to offer letter/contract and HR system. - Ensured new staff members have been authorised by budget holder as appropriate. - Ensured new starters were added to payroll in their first month and that their pay was pro-rated if they joined part way through the month.	There were no new starters during the year.	No issues to note.
5.	Payroll leavers For a sample of departing staff the following was confirmed: - Ensured they had been removed from the payroll the month after they had left. - Ensured the final month of pay was been pro-rated if they had left part way through a month. - Ensured any holiday pay etc. was been correctly calculated. - If any additional payments were made to departing staff, confirmed whether these were contractual and whether the additional payment had been authorised.	There was one leaver in the year as their position was made redundant. They left on 30/09/2022 and so the final months pay did not need to be pro-rated. Their redundancy payment went though on the October 2022 payroll, however, they were not present on the November 2022 payroll. The redundancy package was made up of statutory redundancy pay, payment in lieu of notice and accrued holiday pay. Holiday pay was calculated using the online holiday entitlement calculator on the government website and was accurate based on the information provided by the client.	No issues to note.

Fixed assets			
1.	Fixed asset register Obtained a copy of the fixed asset register and reviewed to confirm whether it is complete and contains all necessary information.	The list of assets has been kept up to date since the year end audit. The asset list is complete and includes new additions purchased during the year. The list is yet to undergo a final review. This will take place prior to the year-end once inventory levels have been confirmed at several locations.	No issues to note.
2.	Fixed asset disposals Confirmed the process for fixed asset disposals and tested a sample to ensure the procedure has been properly followed and authorised.	The council's disposal policy is clearly stated in their financial procedures. Items deemed obsolete or surplus to requirements must be sold or disposed of on the authorisation of the Clerk. Where the expected loss on disposal exceeds £5,000 council approval is required. Several computer equipment disposals were made during the year. However, these were all older than 4 years and the losses on disposal were under the £5,000 threshold. Therefore, only Clerk approval was required.	No issues to note.

4. Recommendations

Finding		Recommendation	Priority	Management Response
Purchases				
1.	Tendering There was one instance where the council's tendering policy was not adhered to.	While it is noted that the council used the same supplier DCC had used to carry out similar work, we recommend that council always adheres to its own tendering process to ensure that value for money is being achieved.		The error arose as this was the third project to install new bus shelters across the parish, however it was the first time that the parish council had purchased the shelters itself. Advertising contracts are agreed by area, with different advertising shelter companies install advertising shelters in "their own" respective areas. It is likely that had the parish council sought to use a different supplier in the parish than the one that had been used in the first two projects, it would not have been permitted to do so. Nonetheless, it is accepted that the contractual arrangements between DCC Highways and the different advertising bus shelter companies should have been further explored and the reason(s) for not obtaining three quotes as per Financial Regulations recorded at the time.

Report Priority rating key

	Fundamental findings that need the immediate attention of management
	Important findings that require management attention, but are not fundamental in nature
	Minor issues that can be improved or administrative errors that require correcting
	The issue has been resolved

