

Michael Warden  
Chair of Finance Committee  
Aldingbourne Parish Council

8 June 2021

Dear Michael

**Aldingbourne Parish Council - Internal Audit 2020-21**

The internal audit of Aldingbourne Parish Council for the 2020-21 financial year is now complete. This is the first year I have carried out the internal audit at this Council. I was appointed late in the financial year and due to the pandemic, carried out the audit remotely. Consequently, the audit was focused on transaction testing with the objective of collating sufficient evidence to support audit conclusions.

As you are aware, the Council has had significant issues with maintaining an adequate system of internal control in 2020-21. The Clerk has been on sick leave for a significant element of the financial year, and there have been issues around access to the Council's bank account. I have identified a number of issues in the course of my audit, these are set out in the detailed report.

I must conclude that I am unable to sign off that the Council has met the following internal control objectives set out in the Annual Governance and Accountability Return (AGAR) - Internal Audit Report :

Control Objective	Reason for Negative Opinion
A. Appropriate accounting records have been properly kept throughout the financial year.	<ul style="list-style-type: none"> <li>- Transactions were not posted to the accounting system until the end of the financial year</li> <li>- I am unable to agree opening balances</li> <li>- Bank statements missing</li> </ul>
D - The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	Progress against the budget was not regularly monitored in 20-21,
G- Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.	<ul style="list-style-type: none"> <li>- Clerk appears to have been paid at wrong rate of pay</li> <li>- No signed contract for the Clerk</li> </ul>

H - Asset and investments registers were complete and accurate and properly maintained.	- No explanation for £20K increase in asset value in 20-21
I - Periodic bank account reconciliations were properly carried out during the year	- Bank statements are missing for 2 months - The accounting system was not maintained for much of the financial year
M - The authority, during the previous year (2019-20) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations	- The Council did not publish a notice of public rights after the approval of the unaudited AGAR for 2019-20. This is legal requirement as set out in the Local Audit and Accountability Act 2014
N - The authority has complied with the publication requirements for 2019/20 AGAR	- The 2019-20 accounts have still not been signed off by the external auditors and conclusion of audit certificate was not therefore published in time for the deadline of 30 November 2020
O - Trust funds (including charitable) – The council met its responsibilities as a trustee	- No Annual Return submitted to Charity Commission for at least 5 years.

I also advise that the Council should mark that it has not complied with the following assertions on the Annual Governance Statement. “NO” should be ticked for the following assertions

1	We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements
2	We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.
4	We provided proper opportunity during the year for the exercise of electors’ rights in accordance with the requirements of the Accounts and Audit Regulations
7	We took appropriate action on all matters raised in reports from internal and external audit
9	In our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/assets, including financial reporting and, if required, independent examination or audit.

I have set out a schedule of recommendations at Appendix A. This should be considered a starting point for the Council to follow when setting up a new system of financial control, there will be other system improvements required outside of this report.

As stated in the engagement letter, the scope of our work is limited to completing the audit testing and enquiries we deem necessary to complete Section 4 of the Annual Report for Local Councils in England. We do not provide assurance over or accept responsibility for



areas of work not included in this scope, unless specifically agreed with the Council during the financial year.

In providing internal audit services we are not conducting a financial statement audit in accordance with standards and guidelines issued by the Audit Practices Board and our procedures are not designed to provide assurance over the reliability and quality of your financial statements and management information – that is the job of external audit.

We are required by the Annual Internal Audit Report included in the Annual Governance and Accountability Return (AGAR) to review controls in place at the Council against predefined control assertions. These control assertions are set out below, together with the results of my internal audit work for 2020-21.

The audit was carried out remotely, due to Covid 19 restrictions. This work commenced out during the week of 17 April 2021. I would like to thank Lindy for her assistance with the audit.

### **A - Appropriate books of account have been kept properly throughout the year**

The Council has had a difficult year. Financial records were not maintained on an ongoing basis in the course of this financial year for a number of reasons:

- There were issues around staff and councillor access to the Council's bank account due to personnel changes;
- The Clerk has had a long period of sick leave and has recently resigned from the Council. A locum clerk was employed towards the end of the financial year, but there were periods where no clerk was in place;
- The Council's financial records have been transferred on to the RBS Omega accounting system, having been maintained on an excel workbook prior to this. This work was completed at the end of the financial year, with the accounting system not being maintained for much of the financial year;
- The external audit for 2019-20 had not been signed off at the time of audit ( June 2021).

I am not able to sign off that the Council has met this control objective. This is for the following reasons:

- Transactions were not posted to the accounting system until the end of the financial year. In order to meet the requirements of this control objective , financial records and reconciliations need to be maintained on an ongoing basis, with regular financial reporting to members;
- I am unable to agree opening balances on the accounting system to an audited set of financial statements for the previous financial year. I cannot confirm that the opening balances are correctly stated on the accounting system;
- Bank statements have still not been obtained for the following periods
  - 25 April to 22 May 2020
  - 25 July to 25 August 2020

I am unable to confirm the accuracy of accounting records if I cannot check to bank statements.

**I will therefore note that the Council has not met this control objective on the AGAR internal audit report. I also advise the Council mark assertion I of the Annual Governance statement as “NO”**

I wish to raise the following recommendations:

- The Council should work with external audit to finalise the 2019-20 audit opinion. Once this has been finalised, opening balances on the RBS Alpha system at 1.4.20 should be reconciled back to audited financial statements;
- The bank should be contacted and missing bank statements located. Records on the RBS Alpha system should be checked against the missing bank statements to ensure that all transactions are properly recorded;

- A locum clerk with RBS Alpha experience should be recruited as soon as possible. If this is not possible, then Rialtas should be contacted and arrangements made to keep the accounts updated with 2021-22 transactions; and
- Going forward , monthly bank reconciliations, including a print of the cashbook and bank statements, should be produced within 14 days of each month end for review and sign off by the Chair of the Finance Committee.

**B - The Council's financial regulations have been met, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for**

Non pay expenditure per box 6 to the accounts amounted to £28,888, down from £45,090( unaudited) in 2019-20.

Standing Orders and Financial Regulations and have been reviewed and were updated at the Full Council meeting of February 2021. These are based around NALC templates.

The Council continues to use cheques as the main mechanism for paying third parties. I recommend that the Council moves forward with plans to make payments electronically. Cheques are not secure, can be lost by suppliers, and the closure of local banks is likely to make cheques less attractive to many suppliers in the near future. This will require the new Clerk to work with Councillors to develop a system that operates effectively, but that is also compliant with financial regulations.

I carried out a sample test of 10 non-pay expenditure transactions selected at random from the cashbook. I attempted to confirm the following for all transactions:

- Payment agreed to invoice, or resolution to make grant award in Full Council minute
- cheque signed off by 2 councillors
- Payment on invoice agreed to bank
- Payment approval noted in minutes of council meeting,
- VAT accounting correct
- Expenditure appropriate for the Council

The test was successful for the majority of transactions tested. However, some omissions were identified:

- 1 councillor signature missing from cheque stub for a payment of £1,202 to Tivoli
- Clear reference in minutes for 2 payments
  - o £6,832 bat survey
  - o £1,024 rainbow benches

The Council must ensure that there is evidence of councillor sign off of payments on cheque stubs and on the invoice going forward. Approval to make payments must also be recorded in minutes for all payments to suppliers .

However, I am satisfied that the Council has met this control objective.

**C - The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.**

The Council is insured with Zurich Municipal on a standard local council package, I have checked indemnity cover / asset insurance and money cover and in my opinion, cover is appropriate for this small council. The policy was in date at time of audit, with an expiry date of May 2021. I have confirmed with the Chair of Finance Committee that insurance cover is also in place from 1 June 2021. Asset cover appeared generally satisfactory with coverage consistent with the asset register. However, a small number of IT assets (I pads and laptops) are not listed on the insurance policy. This should be addressed as a matter of urgency to ensure adequate insurance coverage is in place for IT assets.

The council risk register was considered at the Full Council meeting in on 2 March 2021. I have reviewed the risk register and it appears adequate for a council of this size and activity level. The financial element of the risk register appears to set out a number of sensible recommendations for improving financial control at the Council. This should be used as a starting point for setting up a system of monthly reconciliations and financial processes to be followed by a new clerk.

All computer data is backed up on by the Council's IT contractor, JNR Computer Services . All data is held on a OneDrive system which backs up to the Cloud. This is sufficient for this Council, I recommend that RBS Alpha data is backed up at least weekly to this cloud location.

I am satisfied that the council met this control objective.

**D - The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.**

Reserves at 31 March 2021 were £206,549 ( 2019-20 £133,006 UNAUDITED).

Earmarked reserves on the balance sheet were £30,000, set aside for refurbishment costs at Aldingbourne Community Sports Centre ( ACSC). The decision to transfer monies to this reserve has been checked to the June 2020 minute of the Finance Committee. I recommend that the Council should confirm it has legal power to make this expenditure before any firm commitments are made. Parish Councils have limited expenditure powers – it is not clear to me what power enables the Council to fund refurbishment costs for ACSC, which is a separate legal entity, with its own fixed asset base.

General reserves are £176K. This is more than 130% of the value of the precept. I would recommend that a Council of the size and activity of APC should hold no more than 50% of the value of the annual precept in the general reserve. The Council needs to review reserves before the next budget setting cycle and assess whether more earmarked reserves should be set up:

- To fund future council projects, within the Council legal powers to spend
- To support assets and non-annual expenditure.

The budget and precept for 21-22 was agreed at Full Council in January 2021, based on a draft budget sheet prepared by the Chair of the Council. The Clerk was on sick leave at this time. The resolution to approve budget and precept was properly recorded in minutes and met precepting authority deadlines. A detailed budget has been prepared. This has been loaded on to the RBS Alpha accounting system, ready for 2021-22 budget monitoring.

Due to the issues set out in section A above, the Council has not been able to maintain financial records for much of 20-21, with the accounting system only becoming operational at the very end of the financial year. Budget monitoring reports have not therefore been produced for much of the 20-21 financial year.

**I am required to check that “progress against the budget was regularly monitored”. This has not occurred in 20-21, and I must therefore conclude that the Council has not met this control objective.**

I recommend that a finance reporting pack is produced for monthly Finance Committee / Full Council meetings going forward. This should include:

- Budget v Actual report
- Balance Sheet
- Cashbook for the month
- Bank reconciliation, including bank statements, ready for review and sign off by a reviewing councillor.

**E - Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.**

Precept per box 2 to the accounts was £135,598 (2019-20 £126,100 UNAUDITED). This has been agreed to third party documentation provided by external audit.

Income per box 3 to the accounts was £525 (2019-20 £2,500 UNAUDITED).

No testing completed in this area due to the low level of income.

**F - Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.**

Satisfactory. My testing confirmed that the Council does not use petty cash.

**G- Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.**

Staff costs per box 4 to the accounts were £30,061 ( 2019-20 £13,536).

I have been informed that the Clerk has been paid the incorrect amount for much of the financial year. As a result of this the clerk has not cashed 4 cheques amounting to £4,806. In addition, the Clerk did not have a signed contract of employment with the Council. In the absence of a contract, approved rates of pay and other terms and conditions of employment are not clear.

**I am required to check that “Salaries to employees and allowances to members were paid in accordance with this authority’s approvals, and PAYE and NI requirements were properly applied.”. This has clearly not occurred in 20-21, and I must therefore conclude that the Council has not met this control objective.**

I have been asked to audit payments made to the Clerk in the course of 2020-21. The purpose of this work is to ascertain the level of pay that should have been made to the Clerk, and advise of final payment that needs to be made, once unpresented cheques have been cancelled. This work will be carried out separately and reported to the Chairman of the Council in due course.

**H - Asset and investments registers were complete and accurate and properly maintained.**

**Final Audit**

Fixed assets per box 9 to the accounts were £87,220 ( 2019-20 £66,872)

I can confirm that fixed assets per box 9 to the accounts can be agreed to a schedule of fixed assets. I have not received a satisfactory explanation for the increase in the asset value of £20,348 compared to 2019-20 unaudited accounts. **As a consequence I am not able to sign off that the Council has met this control objective.**

A new fixed asset register should be drawn up in advance of year end 21-22. This must ensure that all assets are listed, and that they are shown at cost or proxy cost ( not a valuation), This asset register should be listed on the RBS accounting system.

**I – Periodic and year-end bank account reconciliations were properly carried out.**

**Final Audit**

Cash per box 8 to the accounts was £206,549 (2019-20 £133,006)



The Council has not been able to produce regular bank reconciliations in the course of the 2020-21 financial year, due to staff sickness and problems with access to the bank account. As reported elsewhere:

- Bank statements are missing for the following periods
  - o 25 April to 22 May 2020
  - o 25 July to 25 August 2020
- The accounting system was not maintained for much of the financial year, so regular bank reconciliations could not be completed

**I am required to check that “periodic bank account reconciliations were properly carried out during the year”. This has not occurred in 20-21, and I must therefore conclude that the Council has not met this control objective.**

**I also advise the Council mark assertion I of the Annual Governance statement as “NO” This requires that the Council should maintain an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness. The bank reconciliation is a key element of such a system.**

I re-performed the bank reconciliation for March 31<sup>st</sup> 2021. I tested the following.

- Confirmed balances back to bank statements
- Checked arithmetic
- Confirmed cashbook balance to the Council’s RBS Omega
- Tested unrepresented cheques

The bank reconciliation contains 4 unrepresented cheques with a total value of £4,806. These are cheques for salary payments to the Clerk, which have not yet been cashed. I recommend that these cheques are cancelled and removed from the bank reconciliation. An additional budget line should then be added to the 21-22 budget under the heading “Clerks pay previous financial year”, and a budget of £5,000 set. The previous clerk has elected not to cash these cheques until issues around accuracy of her pay have been resolved. This adjustment must be posted to the accounting system and the accounts amended before the accounts are approved and submitted to external audit.

Going forward, I recommend that:

- APC moves to electronic bank transfers as a means of paying staff and suppliers;
- APC ensures that a panel of 3/4 councillors plus the clerk are set up as a panel of bank signatories with access to internet banking to ensure continuity of service;
- Bank reconciliations to be produced with 14 days of each month end. The reconciliation should be prepared by the Clerk and review of the reconciliation and bank statement should be completed by the Chair of Finance Committee, before reporting to the next Council meeting;

**J - Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.**

The accounting statements have been prepared on the receipts and payments basis. This is appropriate for this smaller Council with turnover below £200K. I have not been able to verify the accounting basis used for prior year balances, as these have not yet been signed off by the external auditors.

### **M - Arrangements for Inspection of Accounts**

The Council did not publish a notice of public rights after the approval of the unaudited AGAR for 2019-20. This is legal requirement as set out in the Local Audit and Accountability Act 2014. **I must therefore record that the Council has not met this control objective. I also advise that the Council should mark assertion 4 on the Annual Governance Statements ( exercise of electors' rights ) as "NO"**

### **N: Publication requirements 2019/20 AGAR**

The Council has not met this control objective. The 2019-20 accounts have still not been signed off by the external auditors and conclusion of audit certificate was not therefore published in time for the deadline of 30 November 2020. **I must therefore record that the Council has not met this control objective. I also recommend that the council should mark assertion 7 ( internal and external audit) as "NO". The Council had no internal audit coverage for much of the financial year, and did not respond to external audit questions in order to facilitate conclusion of the 2019-20 audit.**

### **O - Trust funds (including charitable) The council met its responsibilities as a trustee.**

The Council is the sole trustee of Westergate Recreation Ground, according to the Charity Commission website. No annual return has been submitted for the past 5 years, so I must conclude that the Council has not met the requirements of this control objective. I also recommend that Assertion 9 on the annual governance statement ( Trust funds) is marked as "NO".

The Council must act to meet its responsibilities as the trustee of Westergate Recreation Ground. Meetings should be set up ( separate to Parish Council meetings) and minuted. The first task of this meeting should be to

- Identify the responsibilities of the council as trustee ( Annual return submission is part of this, rest should be set out in trust deeds)
- Set out a work plan to ensure responsibilities are met each year.



I would like to thank you and Lindy for your assistance with the audit. I attach the internal audit report from the AGAR and my invoice, for your consideration. My invoice is higher than originally quoted in my engagement letter. I have spent 10 extra hours on the audit due to control issues outlined above, and I have invoiced the Council accordingly.

I have been asked to look at payments to the Clerk in 2020-21. This will be reported and billed separately.

Please do not hesitate to contact me if you have any questions at all.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. Platten", written in a cursive style.

Mike Platten CPFA

## Appendix A – Recommendations

Matter Arising	Recommendation	Council Response
External audit opinion 19-20	The Council should work with external audit to finalise the 2019-20 audit opinion. Once this has been finalised, opening balances on the RBS Alpha system at 1.4.20 should be reconciled back to audited financial statements;	
Missing bank statements	The bank should be contacted and missing bank statements located. Records on the RBS Alpha system should be checked against the missing bank statements to ensure that all transactions are properly recorded;	
Immediate accounting requirement	A locum clerk with RBS Alpha experience should be recruited as soon as possible. If this is not possible, then Rialtas should be contacted and arrangements made to keep the accounts updated with 2021-22 transactions	
Financial reports to Council	Going forward , monthly bank reconciliations, including a print of the cashbook and bank statements, should be produced within 14 days of each month end for review and sign off by the Chair of the Finance Committee.	
Authorisation of Payments	The Council must ensure that there is evidence of councillor sign off of payments on cheque stubs and on the invoice going	

	<p>forward. Approval to make payments must also be recorded in minutes for all payments to suppliers .</p>	
<p>A small number of IT assets ( Ipads and laptops) are not listed on the insurance policy.</p>	<p>This should be addressed as a matter of urgency to ensure adequate insurance coverage is in place for IT assets.</p>	
<p>Parish Councils have limited expenditure powers – it is not clear to me what power enables the Council to fund refurbishment costs for ACSC, which is a separate legal entity, with its own fixed asset base.</p>	<p>I recommend that the Council should confirm it has legal power to make this expenditure before any firm commitments are made.</p>	
<p>I would recommend that a Council of the size and activity of APC should hold no more than 50% of the value of the annual precept in the general reserve.</p>	<p>The Council needs to review reserves before the next budget setting cycle and assess whether more earmarked reserves should be set up</p> <ul style="list-style-type: none"> <li>- To fund future council projects, within the Council legal powers to spend</li> <li>- To support assets and non-annual expenditure.</li> </ul>	
<p>The Council has not been able to maintain financial records for much of 20-21, with the accounting system only becoming operational at the very end of the financial year. Budget monitoring reports have not therefore been produced for much of the 20-21 financial year.</p>	<p>I recommend that a finance reporting pack is produced for monthly Finance Committee / Full Council meetings going forward. This should include:</p> <ul style="list-style-type: none"> <li>- Budget v Actual report</li> <li>- Balance Sheet</li> <li>- Cashbook for the month</li> </ul>	

	<ul style="list-style-type: none"> <li>- Bank reconciliation, including bank statements, ready for review and sign off by a reviewing councillor.</li> </ul>	
<p>The bank reconciliation contains 4 unrepresented cheques with a total value of £4,806. These are cheques for salary payments to the Clerk, which have not yet been cashed</p>	<p>I recommend that these cheques are cancelled and removed from the bank reconciliation. An additional budget line should then be added to the 21-22 budget under the heading “Clerks pay previous financial year”, and a budget of £5,000 set. The previous clerk has elected not to cash these cheques until issues around accuracy of her pay have been resolved. This adjustment must be posted to the accounting system and the accounts amended before the accounts are approved and submitted to external audit.</p>	
<p>Bank</p>	<p>I recommend that:</p> <ul style="list-style-type: none"> <li>- APC moves to electronic bank transfers as a means of paying staff and suppliers;</li> <li>- APC ensures that a panel of 3/4 councillors plus the clerk are set up as a panel of bank signatories with access to internet banking to ensure continuity of service;</li> <li>- Bank reconciliations to be produced with 14 days of each month</li> </ul>	

	<p>end. The reconciliation should be prepared by the clerk and review of the reconciliation and bank statement should be completed by the Chair of Finance Committee, before reporting to the next Council meeting.</p>	
<p>Westergate Recreation Ground</p>	<p>The Council must act to meet its responsibilities as the trustee of Westergate Recreation Ground. Meetings should be set up ( separate to Parish Council meetings) and minuted. The first task of this meeting should be to</p> <ul style="list-style-type: none"> <li>- Identify the responsibilities of the council as trustee ( Annual return submission is part of this, rest should be set out in trust deeds)</li> <li>- Set out a work plan to ensure responsibilities are met each year.</li> </ul>	
<p>Fixed Asset Register</p>	<p>A new fixed asset register should be drawn up in advance of year end 21-22. This must ensure that all assets are listed, and that they are shown at cost or proxy cost ( not a valuation), This asset register should be listed on the RBS accounting system.</p>	

