

# Great Coates Village Council

## Internal Auditor's Report

Financial year 2013/14

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#### **1. Objective**

The objective was to report on the operation of the systems and procedures of the council to ensure that they were carried out in accordance with the council's standing orders and financial regulations.

Due to the late appointment of the internal auditor it has not been possible to carry out contemporaneous work during the year on the systems and procedures so all work has been carried out retrospectively.

#### **2. Methodology**

- Review cash book to confirm reasonableness
- Review the bank mandate for evidence of review by the council
- Ensure quarterly statements of receipts and payments properly summarise financial activity and include comparisons to budgets
- Ensure quarterly statements of receipts and payments are evidenced as having been reviewed by the council
- Confirm that the council ensured that the necessary funds were available (or that requisite borrowing approval had been obtained) for any contract entered into for capital expenditure
- Test a sample of payments to ensure they are supported by invoices that are evidenced as having been approved

- Test a sample of cheque book stubs to confirm that they have been correctly completed and have been initialled by the cheque signatories
- Confirm that payments to the clerk for expenses etc are made at least quarterly and supported by appropriate evidence
- Test a sample of invoices to ensure that VAT has been correctly reclaimed
- Test a sample of expenditure to ensure an appropriate official order or letter has been issued where appropriate, and that the lawful nature of the proposed expenditure has been confirmed
- Confirm that appropriate quotations and/or tenders have been requested from at least 3 firms for any contract expected to exceed £1,000 in value which the council intends to enter into
- Review minutes to ensure that significant risks to achieving objectives have been considered and appropriate arrangements made to manage them
- Confirm that the annual precept requirement was based upon an adequate budgetary process
- Test a sample of village hall bookings to ensure that they have been properly recorded in the cash book
- Test a sample of other sources of income to ensure that they have been properly recorded in the cash book
- Confirm that receipts have all been properly recorded and promptly banked with sources of income marked on paying-in slip
- Confirm that all salaries were paid at approved rates and that PAYE/NIC correctly operated
- Review assets register to ensure that it is complete and up to date
- Review bank reconciliations prepared during the year and at the year end
- Confirm that accounting statements prepared during the year were prepared on the correct basis, agreed to the cash book and were supported by an adequate audit trail
- Review minutes for any other relevant information

### 3. Results

- The cash book appears to be maintained in a suitable format, although it is not well cross referenced to supporting documentation
- The bank mandate has not yet been seen
- Quarterly statements of receipts and payments do not appear to have been prepared
- The council appears to have entered into the contract for the re-siting of the war memorial on the assumption that grants will be available to cover the cost without confirming the availability of funds if they are not
- Invoices are not in the file in support of all payments made
- There is no evidence of any direct authorisation of any expense invoices for payment
- No cheque book stubs have been initialled by the cheque signatories
- No supporting evidence has been seen for payment of clerk's expenses
- No purchase invoices were seen where VAT had not been reclaimed. However a brief review of the cash book identified 3 instances of VAT being reclaimed without a VAT invoice in the file to support the reclaim.
- No evidence of a consistently applied policy of raising official written orders
- Procedures for expenditure exceeding £1,000 not apparently applied to appointment of Hodsons re war memorial. Specialists at >£50k rejected and then Hodsons appointed with no indication in minutes of how decision arrived at.
- No evidence in minutes of consideration of risks to achieving objectives e.g. hall costs significantly exceeding income, failure to obtain grant income towards new war memorial.
- Proper procedures are evidenced in minutes re budget/precept setting
- The system to record village hall bookings is poorly operated. Inadequate referencing of booking forms to cash book entries (with different names being used on the cash book to the booking forms in a number of cases) makes it very difficult to reconcile bookings to income per the cash book. A review of invoices for some of the regular hirers of the hall revealed some significant delays in raising invoices and banking cash for bookings. In the case of Mr Curtis for instance the 4<sup>th</sup> December 2013 invoice did not appear to have been paid by the year end. There are also entries in the cash book for which no corresponding invoices can be seen.
- Other sources of income appear to have been properly recorded
- Only 14 bankings have been carried out during the year, suggesting that receipts are not always banked promptly, given volume of receipts in the latter part of the financial year. Of these 14 bankings only 5 have the source of the income marked on the paying in slip
- Other than copies of year end HMRC submissions no payroll information was made available. Comparison of cash book payments to HMRC submission documents showed

total payments as being £801.48 in excess of amounts reported to HMRC. Without further information being made available it is not possible to say what the cause of this apparent discrepancy is. In the case of one payment to a caretaker the cheque book stub annotation is "K J Peers for cash for XXX wages" but this payment of £198.06 is not shown on the year end return. Another payment to the same caretaker of £222.82 is also not shown on the year end return. Payments to a relief caretaker totalling £252.40 have also not been reported on the year end returns made available.

- In April 2013 the council was notified of an overpayment of PAYE of £76.80 relating to the 2012/13 tax year. A review of the 2012/13 cash book showed 13 payments to HMRC rather than 12, which would explain the overpayment. However the 2013/14 cash book shows £76.81 being paid to the clerk personally in relation to this overpayment. There is no evidence in the records made available that the clerk had any entitlement to this money.
- No asset register has been seen
- 3 bank reconciliations have been seen. The unpaid cheques listed on the September 2013 reconciliation did not add up to the figure used in the reconciliation (the difference was £83). For December 2013 and March 2014 the unpaid cheques were recorded as "as per cash book" but there is no copy of the cash book at that time to check against.
- No financial accounts have been seen. 3 A4 sheets have been seen that are headed up as Accounts for Financial Year 13/14 but these are simply summaries of movements on the bank accounts and related bank reconciliations
- Minutes reviewed and no new issues identified. The minutes are printed out on A4 sheets of paper and only one page per month is signed

#### **4. Recommended Action Points**

- As a starting point I would recommend that all councillors have a copy of the standing orders and financial regulations with them at every council meeting
- All payments should be supported by appropriate supporting documentation, which should be signed as approved by two councillors at a council meeting wherever possible. Cheque book stubs should be fully completed and initialled by the cheque signatories
- Financial regulations procedures should be followed when sourcing goods/services for more than £1,000
- All payments recorded in the cash book should be cross referenced to supporting documentation
- All village hall booking sheets should be given a unique sequential number. This number should be recorded on the schedule of bookings/diary.

- A sales invoice should be issued for all village hall bookings and should record the booking reference. The invoices should also have unique sequential numbers.
- A schedule of invoices issued should be maintained, showing invoice date and number, name of hirer, amount charged and date paid.
- Cash book receipts should show the relevant sales invoice number
- Income should be banked on a weekly basis where possible.
- All staff should have employment contracts, which should be reviewed annually. Rates of pay should be approved, and appropriately minuted.
- All salary payments should be supported by an appropriate payroll report.
- Quarterly management accounts, including bank reconciliations, should be prepared and reviewed at council meetings. This review should include comparison of actual performance against budget. The accounts should be signed as reviewed and agreed by two councillors at the meeting
- Interim internal auditor reports should be obtained quarterly. These could be a reduced version of the full annual report or could focus on specific issues as required by the council

## **5. Conclusion**

- The council's financial regulations have not been followed during the year, and there is very little evidence of any proper operation of a system of internal controls
- Income records are particularly poor
- I am unable to sign the Annual internal audit report stating that control objectives have been met
- While it is possible that all of the above issues originated in the year being reviewed it appears to me that it is more likely that at least some of them are long standing
- It will not be quick or easy to address every single area of concern, and proper prioritisation should take place

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2<sup>nd</sup> June 2014