

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

1. All references relate to “Governance and Accountability for Smaller Authorities in England – A Practitioners’ Guide 2022”
2. I have examined the quarterly Cash Records between April 2021 and 31 March 2022 as well as transactions up to the end of June 2022. I have prepared Year end Accounts from documents available as there were none prepared, and I have carried out tests on these and other documents as follows:
 - (a) Checked the casts.
 - (b) Verified the balances in the Cash Records as at 1 April 2021 and as at 31 March 2022 with the bank statements. Checked all items in these cash records to the bank statements.
 - (c) Examined the documentary evidence for receipts and payments.
 - (d) Checked the Minutes for evidence of accurate reporting of receipts and payments.
 - (e) Reviewed systems and procedures in place by speaking to Parish Councillors and examining documents available.
 - (f) Checked the accuracy of analysis of receipts and payments.
 - (g) Checked that VAT is separately recorded to enable claims for repayment.
 - (h) Checked the accuracy of the entries in the Annual Return for 31 March 2022 in relation to the Receipts and Payments recorded.
 - (i) Reviewed the Fixed Asset Register and discussed necessary adjustments.

Due to Covid-19, the Government put in place special Coronavirus regulations to remove the requirement to hold face-to-face public meetings and allow meetings to be held virtually. In addition, reporting timetables for the year ended 31 March 2021 were extended by the Ministry for Housing, Communities and Local Government (MHCLG). Bidborough Parish Council failed to meet the revised timetable requirements for 2021 and finally signed the AGAR on 23 August 2021.

During the year to 31 March 2022 the Council met on Zoom until May 2021 when live meetings resumed.

As the Clerk who managed the finances in the year is no longer in post, I have raised my queries with the Chair and the Deputy Chair of Council, together with the new Clerk appointed in May 2022. My observations are based on their responses and on documents that I found in the few files I was given, together with documents (including Minutes) on the Parish Website. I note that the minutes for the February 2022 and April 2022 meetings are not yet on the website.

The newly appointed Clerk has been asked to review all systems and procedures of the Council and my comments below are made about the past and current practices of the Council.

I was informed that the Parish Council Laptop had been returned to Council after having had all its data wiped out. I have relied to some extent, therefore, on emails sent to Councillors by the previous Clerk as a means of determining what information was provided to Councillors during the year, in order to determine what procedures and internal controls were in place: for example, in determining the process for the preparation of the Annual Budget and Precept.

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3. OBSERVATIONS

GENERAL

(a) In previous years, I understand that Receipts and Payments Accounts have been prepared by the Clerk just before the November meeting when the Precept is discussed. This form of accounting takes no account of year end prepayments or accruals and can distort the real income and expenditure in the year. This is acceptable practice for Parish Councils, for accounting purposes, but is not ideal. I have therefore produced an Income and Expenditure Account for the year end 31 March 2022 with comparatives.

The Income and Expenditure (I&E) method is easier to understand and compare with previous years. The figures in the Annual Governance and Accountability Return (AGAR) for the year end 31 March 2022, submitted in August 2022, are based on the Receipts and Payments basis of accounting.

I recommend that in future the Council prepares an I&E Account and prepares the AGAR on that basis.

(b) In case of unexpected illness or absence of the Clerk, steps should be taken to ensure emergency access to parish records.

(c) During the year the Clerk was using a private email address (that of her husband). For the purposes of data security, the Council should **have** in place official email addresses to be used by all Councillors; private email addresses should not be used for Council business. Access to private Parish Council correspondence should be restricted to the relevant Councillors and officers.

This also has practical reasons: Council business will not be lost among private email correspondence; when there is a change of clerk there is continuity in a generic email address; and an audit trail of correspondence will be easier to find. This is particularly relevant if there is a Freedom of Information request.

I am pleased to report that, since March, the Council has put in place “bidboroughpc.org.uk” email addresses.

(d) From the invoices and accounting records, it is not clear whether hedges of private houses are being cut at the expense of the Council. The Council should determine what hedges and trees are their responsibility and pay for that work only.

(e) It appears that Bidborough's KCC representative has given £20,000 of his Grant to finance Bidborough's “Twenty's Plenty” scheme. This was paid direct to Highways KCC so has not passed through the financial records of BPC. When a Council receives an award from a KCC Councillor's Members' Fund, it is often included in Other Income as a Donation and the Council pays for any work done. As this Project has been financed in a different way, it would be sensible to provide this information to Parishioners via a note to the Accounts.

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4. YEAR END REVIEW

Due to the difficulties experienced by Council in agreeing the AGAR for the year 2020/21 a review of the internal audit took place. This was undertaken to ensure the finalisation of the 2021 AGAR. As mentioned above, the AGAR was finally signed on 23 August 2021; the Clerk is no longer in post and a new Clerk was appointed in May 2022 with the task of improving Internal and other controls.

The Clerk produced the 2021/22 AGAR in some haste in order to fulfil the delayed reporting date set by the External Auditor PKF Littlejohn. It should be noted that the Council gave negative responses to all the questions in its Annual Governance Statement and provided the External Auditor with explanations of its negative responses. I understand that the Councillors have been provided with this report. I have taken note of Council's responses in my own Report.

The deadline for my Internal Audit Report has also been extended.

The Annual Internal Audit Report requires me to make a series of comments on the Council's Internal Controls.

Should I report any negative responses I must explain my reasons to the External Auditor.

As these reasons need to be included in this Report to the Parish Council it seems sensible that I list here, those Internal Control questions and the reasons for my negative responses:

The Annual Internal Audit Report that is part of the AGAR form asks me to report on Internal control objectives. In the introduction it states:

“Set out below are the objectives of internal control and alongside are the internal audit conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of this authority.”

If I answer “NO” to any question, I must provide an explanation to the External Auditor. These explanations will form a major part of my report to you.

I have made additional observations where I consider it relevant:

A. *Appropriate accounting records have been properly kept throughout the year.* NO

Cash records have been kept but these have taken the form of 4 quarterly lists of receipts and payments, analysed over relevant headings. There do not appear to be any Day Books to record and control incomes and expenditures. It appears that the cash records have been compiled from the bank statements rather than from underlying records (in some cases, cheque numbers have not been recorded in sequence). If the bank fails to process an item, this might not be picked up.

The cash records have not been compiled into 6 monthly or yearly figures. They have not been compared to Budget/Precept requirements. See D below.

B. *This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.* NO

I found no written procedures about how payments should be authorised. There was no evidence of approval on any of the supplier invoices. The system of approval was the presentation of invoices at Council Meetings with cheques attached: two signatories signed the cheques. There was no evidence of expenditure being compared to Budget.

All receipts and payments should be presented to the monthly Council meetings and

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reported in the Minutes as a further form of authorisation. Not all receipts or payments were recorded in the Minutes.

From October 2021 most payments were made by BACS and were processed by one cheque signatory. There is no evidence on the invoices that the payments were approved by other Councillors.

With regard to VAT, the Clerk claimed VAT of £414.70 on the election costs billed by TWBC in December 2021. Subsequently, TWBC paid back the VAT to BPC but this has not yet been paid back to HMRC.

VAT of £89.08 on a cancelled cheque also needs to be repaid to HMRC. When the cheque was cancelled, the gross value of the cheque, £534.49, was credited to Newsletter receipts instead of the net amount, £445.41, being deducted from Village Care costs and the VAT being credited to HMRC.

VAT was recovered from HMRC for the period 1 April to 31 December 2021; on the submission it stated that the period covered was to 31 March 2022. This was not so: there remains £3,554.03 to be collected for the period 1 January to 31 March 2022. The Current account was allowed to become overdrawn in July 2021 and twice in September 2021. This resulted in 2 charges of £7 by the bank. This was not reported to Council.

- C. *This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.* NO

On the Annual Governance Statement of the AGAR form, the Council is required to state “that they have carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls...” The Council could not provide a positive response to this question in the 2020/2021 or 2021/2022 AGAR forms.

Following the completion of the AGAR in August 2021 the Council was advised to take steps to introduce a risk register and an action plan to mitigate any risks identified. A set of Financial Standing Orders was circulated to the Meeting in September 2021 for consideration by the Finance Committee, but this consideration did not take place in the year ending 31 March 2022.

In the meantime, payments continue to be made by BACS by one cheque signatory. During the past 2 years there is no evidence of the Bank Statements being compared to the quarterly cash sheets and initialled by Councillors. The Councillor who is making the BACS payments may be the only Councillor who sees the bank statements.

Throughout the years to 31 March 2021 and to 31 March 2022 the deposit account balance stood above £100,000. There is no security for bank deposits in excess of £85,000.

Due to the withdrawal of a planning application being inadequately managed, there is a risk of litigation against the Council. All future applications should follow correct procedures.

The new Clerk appointed in May 2022 has been tasked with introducing all proper procedures, including appropriate risk assessments and means of internal control, together with a review of the Council’s responsibilities with regards to GDPR.

- D. *The precept or rate requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.* NO

At the end of each quarter, Councillors were provided with reports listing 3 months’ receipts and payments, analysed over various headings. No budget nor comparison to budget was offered to Councillors during the year. Progress against the budget was

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therefore not monitored.

Shortly before the November 2021 Council meeting the Clerk circulated to the members draft figures and some Notes on how she had drawn up the Precept for the following year. At the ensuing meeting, Council discussed the figures, made changes as appropriate and approved the Precept. The reference to the consideration of the Precept in the minutes refers to the additional items to be added to the draft figures; approval of the total precept for the year 2022/23 is recorded but with little information for members of the Parish and no mention was made of the percentage increase over the previous year (over 15%) or what impact it would have on reserves.

Currently reserves are very high due to provision for several expensive projects that have not yet come to fruition. Current reports do not identify the level of reserves. The Council needs to put in place a Reserves Policy to ensure that they are maintained at an appropriate level.

None of the precept papers in the Clerk's files are dated and so it is not possible to ascertain the timeline.

No Budget was prepared, and no cumulative accounts were prepared hence there was no comparison of actual figures to budget at any stage during the year.

This applied to both years: 2020/2021 and 2021/2022.

- E. *Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for.* NO

There does not appear to be a proper record of all income due to BPC. In addition, some receipts are recorded in the Minutes, some not. Not all cheques were promptly banked.
Precept

The precept due in April 2021 was £30,636 being 50% of £61,272. The amount received was £30,363. No notes are written on the remittance from TWBC to explain the difference, and the amount received, though recorded on the quarterly Cash sheet, was not reported to Council.

When the second instalment was received in September, it was £30,909. No notes are written on the remittance to query the "incorrect" figure. The value of the remittance was reported in the Minutes but no explanation of the difference. It appears that TWBC underpaid the Precept in April by £273 and added it to their remittance in September. There is no evidence that the first instalment was checked by the Clerk and TWBC advised of their error.

Allotment and Newsletter Advertising Income

I have not been provided with accounting procedures or a daybook controlling monies due from Allotment holders or Advertisers.

I have made a list of all advertisers in the Spring 2021 and Autumn 2021 Newsletters, have noted amounts received in the Cash Book but cannot determine if all amounts due have been received. There appears to be a shortfall, but I cannot specify the amounts. In the year to 31 March 2021 income in the cash book shows £420 and in the year to 31 March 2022 £270.

From the cash book, I have also made a list of monies received from Allotment holders but have been given no record of rates charged nor copies of invoices issued. I have a schedule of 20 Allotments as at September 2020: monies have been received from all allotment holders but there is no way of determining if the amounts are correct. Income in the year to 31 March 2021 was £477 and in the year to 31 March 2022 £399 (after reallocating £200 relating to the Cemetery that was incorrectly included in Allotment receipts).

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Similarly I had no way of verifying receipts from Burials. As mentioned above, £200 was included in the cash sheets as Allotment monies, so there would appear to be no control over the amounts received.

Banking of cheques: it appears that they were not always banked promptly.

A cheque for £100 was entered in the paying in book on 6 September 2021 but did not appear on the bank statement until 25 October 2021.

Three cheques totalling £200 were entered in the paying book on 24 September but did not appear on the bank statement until 28 October 2021.

A cheque for £10 was entered in the paying in book on 29 September 2021 but did not appear on the bank statement until 28 October 2021.

Cheques and other income should be promptly banked.

F. *This relates to Petty Cash. There are no petty cash transactions. N/A.*

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. NO*

As stated in the External Auditor Report for the 2020/21 AGAR:

"The smaller authority has confirmed it has not complied with certain laws and regulations during 2020/21 and prior years since the Council was not registered with HMRC and the Clerk was self-employed and did not have a contract with the Council. We understand that the Council has registered with HMRC during 2021/22; however, Assertion 3 may need to be answered "No" in the 2021/22 AGAR depending on the method used to pay the Clerk during the year."

The Clerk was not paid under PAYE in the year to 31 March 2022. Although the Council has now registered with HMRC it is not known if any charges will be levied against BPC by HMRC in the future.

At the time of reporting, the Clerk has not been paid for work done in that year and there is no cost included in the 2021/22 AGAR.

H. *Asset and Investments registers were complete and accurate and properly maintained. NO*

During the course of the second internal audit of the 2020/2021 AGAR by David Buckett, it was found that the assets had been recorded at replacement cost instead of at actual cost. The Fixed Asset figures in the 2020/21 AGAR were amended accordingly.

There does not appear to be available a split of the Fixed Assets by category that ties in with the AGAR figures and I am therefore unable to verify the brought forward figure of £112,193. I have been provided with a Fixed Asset Register, but the figures do not tie up to those included in the AGAR.

However, I can say that the Fixed Asset figure in the AGAR for the year end 31 March 2022 is incorrect as over £17,000 was spent in the year on upgrading the streetlights: some were cut down and replaced. The spend on this should be recorded as additions to Fixed Assets and original costs amended accordingly if lights have been replaced, not merely repaired.

A new Register of Fixed Assets should be drawn up, listed by category and location; costs should be allocated where known (or estimated if not known) and purchase invoices attached where available. This will enable future additions and disposals to be accurately recorded. Insurance values should also be recorded to facilitate renewal of the Parish insurance policy each year.

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There are very large amounts in the bank deposit account. The Council has been planning substantial expenditure on the Playground, the Cemetery wall and on the Streetlights and built up funds accordingly. Apart from £17,000 spent on the streetlights, these projects have not progressed. The Finance Committee, when it meets, should re-evaluate the needs of the Parish and make recommendations to Council in preparation for the planning of the 2023/2024 Precept.

- I. *Periodic bank account reconciliations were properly carried out during the year.* YES

Bank reconciliations are noted on the quarterly cash reports.

But, there is no evidence that Councillors were shown the bank statements at the quarterly (or monthly) meetings to verify the bank reconciliations and initial them. As has been said above, online payments were made by one signatory only in the period from October 2021 to the end of the Accounts' year.

This is a weakness in internal control.

- J. *Accounting statements prepared during the year were prepared on the correct accounting basis (R&P or I&E), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.* NO

As noted in (A) above, quarterly cash statements were provided. Although they were analysed over expense headings they were not regularly aggregated and not compared to Budget or Precept. At the end of the year to 31 March 2021, when the AGAR was presented for signing, a simple Receipts and Payments account was given to Councillors.

Accounts have been prepared on a Receipts and Payments basis. It would be more appropriate to use the Income and Expenditure accounting basis: this takes account of debtors and prepayments as well as creditors and accruals at the beginning and end of the year. This would have brought to light some of the inconsistencies to which I have referred, eg the unclaimed VAT of £3,554.

I have produced an Income & Expenditure Account for the year end 31 March 2022 with comparatives. This is attached with explanatory notes.

- K. *Not applicable*

- L. *The authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements.* NO

In the Council's response to question 4 of the Annual Governance Statement, it answered "No".

Not all information was made available on the website at the time of the internal audit. Council has asserted that this requirement will be in place for next year's AGAR.

- M. *The authority, during the previous year (2020-21) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations.* NO

As reported by the External Auditor, the authority failed to comply with this requirement due to the late submission of its AGAR and other documents. Council has had to respond with "No" to question 4 in the current year's AGAR but see Council's assertion in L above.

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N. *The authority has complied with the publication requirements for 2020/21 AGAR. NO*
see responses to L and M above.

IN CONCLUSION AND NEXT STEPS

There have been no internal control measures in place during the year end 31 March 2022.

Council appointed a new Clerk in May 2022:

As described in the Council's "Explanation of Answers to Assertions" within the annual Governance Statement for 2021/22, the Council intends that the Clerk will undertake a Financial Risk Assessment and produce a Statement of Internal Control.

A new financial accounting system will be put in place to ensure Accounts are properly produced and comparisons to Budget regularly carried out and reported to Members.

This new financial accounting system will enable an Income and Expenditure account to be produced: the 2022/23 AGAR should be completed on that basis and the comparative figures amended accordingly.

The bank mandate must be changed to ensure that there are two signatories authorising payments. Payments continue to be made by one Councillor.

There will be established a dedicated training programme for Members.

The Council aims to put these, and many other measures referred to in my report, in place before the end of the current financial year.

Marian Hemsted
Reed House, Plaxtol
16 September 2022