



Morecambe Town Council

Internal Audit Report [Interim]

Date of Interim Visit: 16 March 2020

Financial Year Ended: 31 March 2020

Prepared by: Internal Audit Yorkshire

Status: Final

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This internal audit report is based upon best practice guidelines set out in the Practitioners' Guide to Governance and Accountability for Local Authorities.

Internal audit is an on-going function, undertaken regularly throughout the financial year, to test the continuing existence and adequacy of the authority's internal controls. It results in an annual assurance report to members designed to improve effectiveness and efficiency of the activities and operating procedures under the authority's control. Managing the authority's internal controls is a day-to-day function of the authority's staff and management, and not the responsibility of internal audit.

Internal audit does not involve the detailed inspection of all records and transactions of an authority in order to detect error or fraud.

[Source 'Governance and Accountability for Small Authorities in England Practitioners Guide 2019']

1. Background

1.1 Authorities in England operate within a legal framework which provides them with the necessary statutory powers and authority to deliver local public services. Authorities and their clerks/chief executives/RFOs should always be aware of, and have regard to, the legal power they are exercising when deciding on any action including to spend public money.

1.2 The proper practices for smaller authorities (Town and Parish Council's) are included in the Governance and Accountability for Smaller Authorities [March 2019], a Practitioners Guide. Smaller authorities in England must complete an Annual Return and an Annual Governance Statement to the public. The Annual Return must be submitted to the external auditor within the statutory deadline of 30 June.

2. Purpose of Internal Audit

2.1 Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.2 The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective. The internal audit function must be independent from the management of the financial controls and procedures of the authority which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the authority.

2.3 The objectives for Internal Audit Yorkshire are to undertake a programme of work to help discharge the statutory internal audit responsibilities and form a judgement of the effectiveness of internal control arrangements during the financial year. Our objective going forward will be to follow up on our internal audit work completed and provide feedback to the Council on the effectiveness of new controls. The key systems and processes will range from:

- Proper book-keeping including the cash book; bank reconciliations
- Standing orders and financial regulations;
- Payment controls/petty cash; Income controls;
- Budgetary controls; Petty cash procedure;
- Payroll controls; Asset control;
- Year-end procedures; and risk management arrangements.

The list is not exhaustive and can vary from each authority who can agree a specific programme of work with its internal auditor provider each year.

3. Our Objectives and Programme of Work

3.4 Our programme of cover has been designed to afford reasonable assurance that the Councils financial systems are robust and are operating in an effective manner and in compliance with the statutory legal framework.

3.5 Our work during this visit will contribute towards the judgements on the internal control objectives in the Annual Internal Audit Report which forms part of the Councils Annual Governance and Accountability Return which we will complete for the Council in May 2020.

4. Our Scope of Work During the Interim Visit

4.1 This report covers findings from the visit in March 2020. We covered the following areas:

- Book Keeping and Bank Reconciliations
- Standing Orders and Financial Regulations
- Payment Controls and Expenditure Testing
- Scheme of Delegation
- Charge Card
- VAT
- Risk Management Arrangements
- General Data Protection Regulations [GDPR]
- Back-up of Electronic Files
- Budgetary Controls and Financial Health
- Income Controls including the precept
- Petty Cash
- Payroll Controls
- Asset Management
- [Other Matters] Local Government Data Transparency Code 2015
- [General] Additional Comments/Recommendations

We would like to thank the Clerk Mr Bob Bailey for all his help and assistance during the audit.

5. FINDINGS

5.1 Book Keeping and Bank Reconciliations

OBJECTIVE:	To obtain assurance that the books of account have been properly kept throughout the year and that data input controls are accurate
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- 5.2 The Responsible Financial Officer [RFO] is responsible for the financial administration of the authority in accordance with section 151 of the Local Government Act 1972. The RFO determines on behalf of the authority the form of its accounting records and supporting records and its financial control systems. We have noted that the Town Council appointed an Acting Town Clerk and Responsible Financial Officer from the 01 September 2019 following the departure of the previous Clerk. The position of the Acting Clerk and Responsible Financial Officer was made permanent from the 07 November 2019.
- 5.3 The cash book is the main focus for the day-to-day accounting and balancing off and reconciliation to the bank statement, and remains the most important control over the accounting system. The Town Council uses a computerised accounting system Scribe. The Scribe system is a purpose-built data entry system for Town and Parish Councils and has the full capacity to input receipts and payments and assists in the preparation of the year end annual accounts.
- 5.4 An up to date cash book with the opening balances is essential because the statements provided by the bank will not necessarily be a reliable record of the Councils cash balances and therefore the Council may be required to refer to the cashbook instead. We checked the cashbook to confirm that the opening balances were entered into the cashbook correctly and agreed with the previous year's closing cash balances. We found that the year-end closing balances did not match with the opening balances entered onto the Scribe system.

5.5 After further discussions with the Clerk and on inspection of bank reconciliations from 01 April 2019 to December 2019 it appears that the previous Clerk may have been operating a manual accounts system using data from the Scribe Accounts System as we were unable to verify detailed reconciliation statements with the data from the Scribe system.

5.6 The arithmetic of the accounting data had not been entered correctly which did not enable the scribe system to automatically produce the month end bank reconciliation but it appears the system was calculating the totals which enabled the Clerk to carry out some form of reconciliation that was being presented to full Council on a regular basis. We have been informed by the incumbent Clerk that the Scribe system had malfunctioned in some way which may have led to these errors; however, we do not have a full explanation to understand why the system was being operated in this manner or why the issues within the system had not been reported to the Council. For example, the bank reconciliation statement dated 26 June 2019 that was considered at the full Council meeting on the 11 July 2019; showed a total bank balance of £301,017.13. We attempted to view the detailed reconciliation record from the accounting system which showed that at the 26 June 2019, although the total balances of £301,017.13 were correct, the Council was operating with two separate bank accounts. The total balance of the HSBC main account was £296,109.13 and the total of the Money Market Call account was £4,907.62 to equal £301,017.13. There had been no separate bank reconciliations carried out for these two accounts.

Recommendation 1: The previous year’s annual return figures must agree with the current year’s opening balances in the cash book; therefore, we recommend that the opening balances from 01 April 2019 are entered into the cashbook correctly to ensure it is up to date and records the Councils opening cash balances [We understand at the time of our visit, the Clerk had corrected the opening balances with Scribe support. We will verify this when we review the year end accounting statements].

Recommendation 2: Where the Council is operating with two separate bank accounts, a separate bank reconciliation should be performed and carried out for each account.

5.7 We were informed by the Clerk that some issues on the Scribe system had been rectified with Scribe support and that the system was now being used to produce bank reconciliations from February 2020. We inspected the bank reconciliation for February 2020 and found that although the statement balance reconciled with the bank statement, the bank reconciliation lacked a lot of detail, for example it did not record a breakdown of the unrepresented cheques, the bank account name of the account being reconciled, the bank statement number and the statement date of the reconciliation. A detailed bank reconciliation will enable members to carry out a verification against the bank statement.

5.8 We noted that although the bank reconciliation statements were reported to the full Town Council, some errors that were identified [see para 5.7 above] may have been picked up by members had a verification of the statements been carried out. Approval of the bank reconciliation by the authority or the chair of finance or another authority nominee is not only good practice but it is also a safeguard for the Responsible Financial Officer. We did note at the time of our visit, the Clerk had identified how a detailed reconciliation report could be printed off from the Scribe Accounting system.

Recommendation 3: That the Finance and Governance committee appoints a member, other than a cheque signatory to verify the bank reconciliation statements for all accounts (produced by the RFO), to be verified in the presence of committee members and formally minuted.

5.9 We carried out a bank reconciliation for January 2020 against the entries coded into the Scribe system and verification against the bank statement and found no errors or omissions. We then reviewed the bank reconciliation statement for 28 February 2020 and found that although the reconciliation was carried out correctly, the statement showed a total of £36,127.78 of uncleared cheques. This total included five transactions for the period of March that had been entered onto the system at the time the bank reconciliation was performed. The reconciliation did not show the Councils accurate financial position as at 28 February 2020 as it included unpresented cheques for the period of March. The Clerk has explained that the Scribe system includes all entries at the date which the reconciliation is performed. It is the view of internal audit that there should be greater control within the accounting system to eliminate the entries from the cashbook for the next month at the time which the current months bank reconciliation is carried out.

Recommendation 4: That the bank reconciliation statements should eliminate all entries for the next month with the exception of month 12 of the financial year, which should include all entries as at 31 March.

5.10 Standing Orders and Financial Regulations

OBJECTIVE:	To obtain assurance that Standing Orders, Financial Regulations and Appropriate payment controls (payments supported by invoices, expenditure is approved, VAT is correctly accounted for) are in place and are followed.
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5.11 Authorities are subject to a range of regulations, which can change more frequently than primary legislation. It is important, therefore, to be aware of new regulations that are issued as well as keeping up to date with the latest versions of existing ones. A review of the minutes confirmed that the Council initially adopted a set of Standing Orders on the 16th June 2011 and subsequently reviewed these on an annual basis for re-adoption. The latest review was carried out at the Annual General Meeting of the Council held on the 16th May 2019.

5.12 The Financial Regulations were initially adopted by the Council in June 2011 followed by annual reviews. The latest review was carried out at the Annual General Meeting of the Council held on 16 May 2019. The current Financial Regulations are out of date for example they refer to the Audit Commission Act 1998 which no longer exists and has been abolished. Financial Regulation 6.1 states 'All payments shall be effected by cheque, debit card or by BACS on the Council's bankers'. There are currently no detailed arrangements in place for setting up a bacs payment as defined within the new updated Financial Regulations.

5.13 Although the Standing Orders and Financial Regulations were reviewed on an annual basis, we noted that the review was not based on the latest model documents issued by the National Association of Local Councils [NALC]. The latest model documents of the Standing Orders and Financial Regulations were issued by NALC in July 2018. As referenced above [para 5.11] it is important that the Council adopts the latest model documents as they include the latest changes in legislation.

Recommendation 5: That the Standing Orders and Financial Regulations are reviewed to ensure that they are up to date in accordance with the latest National Association of Local Council [NALC] model documents and tailored to the Council as required.

5.14 Payment Controls and Expenditure Testing

- 5.15 The payments process should always be carried out in accordance with the authority's Financial Regulations. The Council is currently operating with electronic banking and ad-hoc cheque payments. Payments due are entered onto the Scribe accounting system and attached to an agenda pack. The payments schedule is then authorised by the Finance Committee and subsequently ratified by full Council. We noted that the Council did not appoint any committees until January 2020. All payments were therefore being presented to Full Council for authorisation. Whilst the Council have been making grant payments, we noted that there was no provision within the Financial Regulations to include expenditure for grants and ad-hoc projects. We noted that there was no delegation for committees to approve their own payments. Committee delegated budgets would be identified at the point the budget is approved by the Council or during the financial year in accordance with any delegation arrangements contained within a committees Terms of Reference.
- 5.16 We reviewed the payments schedule from April to October that was presented to Council. The schedule did not show the list of each individual transaction in voucher number or cheque number order. The schedule presented included a separate section for each budget with entries coded under the budget. This in our view would make it difficult for members to spot any errors or payments that could have been omitted from the schedule. The payments schedule did not allocate an authorisation reference for each individual transaction or have an adequate audit trail, such as an approved purchase order. From our discussions with the Clerk, the Scribe accounting system will be used to print off all future payment schedules presented to Council or Committee.
- 5.17 Financial Regulation 6.3 enables the Clerk to take all steps to settle the invoices. However, we noted payments are held back until the authorisation of the payments schedule by Council or Committee. The RFO then sets up the banking payments which are authorised by two of the four bank signatories for payment. We inspected the books and the invoices. On the face of the invoices, there is no reference to state that the invoices have been certified for payment by the RFO in accordance with Financial Regulation 6.2 and FR 10, there is no indication of an authorisation reference, no purchase order details or adequate audit trail, no details of the date the payment was made, the cheque or voucher number and the accounts system cost centre/code. We were unable to confirm from the review of the minutes if all expenditure transactions had been authorised in advance.

Recommendation 6: That an accounts audit stamp is used for all invoices to record details of the Certifying Officer, Authorisation Reference, PO Number, Cost Centre/Code, Date Paid, Cheque Number.

Recommendation 7: That the Council sets up a purchase order system and implements this into their financial practices as required in accordance with the Financial Regulations.

Recommendation 8: That all invoices indicate the authorisation minute reference or Financial Regulation reference that authorises the payment. That all invoices are accompanied by a purchase order [where applicable] or reference to a purchase order number, contract or Financial Regulation reference where payment is made on account or via a direct debit arrangement.

Recommendation 9: That improvements are made to the payments schedule presented to Council [or Committees] to include an authorisation reference column that confirms the authorisation of each individual payment and the power the Council is relying on to incur the expenditure [this will determine whether the payments are lawful and represent best value for money in accordance with FR 10.4]

- 5.18 We carried out a random spot check of transactions to confirm that the payments were made in accordance with the Financial Regulations. We found that whilst payments had been authorised by the Committee or Council, it was unclear if prior authorisation had been given before the expenditure was incurred. We found at least 3 cheque payments where the cheque book stubs had not been initialled by the cheque signatories. We found that where online banking transactions had been made, they were not supported by an audit trail documentation that could have been attached to the invoice to verify that the correct payment had been made. We reviewed a transaction for a grant payment and whilst the grant documentation was filed, there was no specific Council grant form which identified the sum of money requested from the applicant or the sum of money awarded by the Council.
- 5.19 We reviewed the Council Staffing minutes dated 3rd October 2019: Minute Reference 72 stated that 'It was resolved that the recommended independent specialist be appointed to deal with personnel issues with a limit of £10,000 in the relevant budget'. The appointment of the advisor did not follow the procurement process as set out in the Financial Regulations and an advisor was appointed at a cost of £4,500 + VAT. We were informed that the reasons for the appointment of this particular advisor [recommended by the principal authority] was to expediate an ongoing employment matter. The contract commenced on 14 October 2019 and ended on 31 October 2019 which included the preparation of a report. On inspection of the invoice, it did not state the detailed costs for the work and referred to 'professional fees'. We understand that the hourly rates ranged from £110 per hour to £185 per hour. Where the Council is directly involved in procurement, consideration should be given to obtaining the best value for money and the Financial Regulations must be followed at all times unless an exemption applies. In exceptional circumstances a Council may decide to suspend its Financial Regulations and in doing so the Council must demonstrate the reasons why and this should be supported by a robust business case and risk assessment.

Recommendation 10: Where online banking transactions are made, a receipt of the online payment should be attached to the invoice as verification that the correct payment is made [for audit purposes].

Recommendation 11: That a specific grant form is introduced by the Council which includes adequate terms and conditions for applicants and the maximum sum of money to be applied for with any supporting documentation as determined by the authority.

Recommendation 12: That the Council follows the Financial Regulations procurement process and obtains the necessary quotes for all future contracts exceeding £1,000 unless there is an exemption that has been applied in accordance with Financial Regulation 10.

5.20 Scheme of Delegation

- 5.21 Morecambe Town Council is a large authority with 26 elected members and a precept of £189,593.58. We would expect to see a Scheme of Delegation for Committees and Officers for an authority of this size that enables each delegated committee to be responsible for their committee

budget. A Scheme of Delegation would allow appropriate officers to make purchases up to approved limits without requiring specific prior approval from a committee. The Financial Regulations state 'Expenditure on revenue items may be incurred up to the amounts included for that class of expenditure in the approved budget'. It is unclear within the current regulations about the authority to spend.

- 5.22 A Scheme of Delegation would normally include each individual committees' terms of reference. Introducing such a scheme would allow officers to incur expenditure [within set limits] and speed up the payments process as each committee would be responsible for receiving and approving their own monthly schedule of payments that would normally include each transaction detailing the authorisation reference supported by a committee minute reference, Financial Regulation reference or a reference from the Scheme of Delegation.

Recommendation 13: That a Scheme of Delegation is introduced for Committees and Officers incorporating each individual committees' terms of reference.

5.23 Charge Card

- 5.24 The RFO explained that the Council does not operate with any form of a Charge Card. A Charge card would enable the Clerk/RFO to make purchases that cannot be made via the normal ordering process for example online purchases.

Recommendation 14: Where the Council introduces a charge card; we recommend that the operation of the charge card follows any requirements to be introduced into the Financial Regulations and that appropriate procedures are in place to manage their use. Procedures should include the limit of the cards, designated card holders and a process in place for cancellation in the event the card holder leaves.

5.25 VAT

- 5.26 The Council is not VAT registered. We were informed by the RFO that the Council has normally reclaimed VAT on an annual basis. At the time of our visit did not carry out detailed inspections of the VAT records, however we noted that two VAT refund entries had been recorded on the Scribe accounting system. We will carry out audit testing for VAT at our year-end visit.

5.27 Risk Management Arrangements

OBJECTIVE:	To obtain assurance that risk management arrangements are adequate to manage all identified risks.
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- 5.28 Risk management is the process whereby authorities methodically address the risks associated with what they do and the services which they provide. Risk management is an ongoing activity that comprises four elements: identifying risks; assessing risks; addressing risks; and reviewing and reporting. This is demonstrated by key documents the Council should have in place which include a Risk Assessment and a system of internal controls. This should be carried out by the authority at least on an annual basis or at any time the risk changes.
- 5.29 The Council does not have a system in place where it carries out a check of its internal controls.

The internal controls check should be carried out by the Council at least on an annual basis and separately documented and formally recorded in the Council minutes.

5.30 At the time of the audit, the RFO was unable to confirm what process the Council has previously applied to reviewing the risk register. The Clerk/RFO had anticipated that it was likely that the risk assessment would be presented to the full Council next month. We were unable to view a copy of the risk assessment document from the last financial year. We would expect to see the risk assessment to include all key risks facing the Council, evaluate potential consequences to the Council if an event identified as a risk takes place, decide upon appropriate measures to avoid, reduce or control the risk, record any conclusions reached and monitor any resulting risk mitigation plans.

5.31 The Councils Financial Regulations, section 17 refers to 'risk management policy' statements. From conversations with the Clerk/RFO we understand that the Council does not have a Risk Management Policy in place. We would recommend that a policy is introduced as it will assist both members and officers in the discharge of their responsibilities in compliance with the Financial Regulations.

Recommendation 15: That a Risk Management Policy is introduced and adopted by the Council. The policy should outline processes involved in regards to risk assessments and the Councils internal controls procedure and responsibility for implementing the policy.

Recommendation 16: That the Council carries out an annual review of the risk assessment before the 31 March 2020 to include all key risks facing the Council and controls in place to reduce the level of risk.

5.32 The insurance policy was reviewed. The main insurable risks of public liability, employer's liability and fidelity guarantee are in place. The asset register value was recorded as £63,376.94 at 31 March 2019. On inspection of the insurance documents, a list of specific council assets was insured at the total value of £52,740.92. The Clerk/RFO was unable to confirm when a review of the asset register against the insurance policy had been carried out. Further information relating to the asset register is referenced at section 5.57 within this report.

Recommendation 17: That the Councils insurers are provided with a copy of the updated asset register and that the assets with the latest replacement values are insured [see section 5.57]

5.33 General Data Protection Regulations [GDPR]

5.34 The General Data Protection Regulations came into force on the 25 May 2018. Due to the financial risk associated with the new Data Protection Regulations, Data Protection forms part of the Councils Risk Assessment. We understand that due to the significant staffing changes, the Council has been unable to introduce the new GDPR policies relevant to the authority.

Recommendation 18: That the Council introduces policies relevant to the authority to comply with the General Data Protection Regulations. The Society of the Local Council Clerks (SLCC) have a GDPR Checklist and model policies that the Council should consider adopting as required. Alternatively, the Council may wish to contact their local County Association for support.

5.35 Back-up of Electronic Files

5.36 Risk management arrangements include the back-up of the computer systems and files. We understand that the Council recently upgraded its IT systems and has reasonable arrangements in place for the loss of data. The office computer systems are linked to a laptop that shares the hard drive data that is transportable between both devices, which enables the user to access data from the laptop when it is used remotely at Council meetings or whilst the Clerk is working at home. There are arrangements in place for automated data back-ups via the Cloud. All IT arrangements are outsourced to a local company.

5.37 Budgetary Controls and Financial Health

OBJECTIVE:	Verify the annual precept request is the result of a proper budget process, that budget progress has been regularly monitored and the Councils reserves are appropriate.
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5.38 The preparation of an annual budget is one of the key statutory tasks to be undertaken by an authority, irrespective of its size. The budgets purpose is to assist the authority in setting the precept for the year, [subject to the authority's Financial Regulations] it gives the clerk and other officers overall authority to make spending commitments in accordance with the plans approved by members; and it provides a basis for monitoring progress during the year by comparing actual spending against planned spending.

5.39 Paragraph 5.9 of the Governance and Accountability Guide provides detailed information of each key stage and order the Council should consider in the budgeting process:

- decide the form and level of detail of the budget;
- review the current year budget and spending;
- determine the cost of spending plans;
- assess levels of income;
- bring together spending and income plans;
- provide for contingencies and consider the need for reserves;
- approve the budget;
- confirm the precept or rates and special levies; and
- review progress against the budget regularly throughout the year.

5.40 In setting the 2020/21 budget, the Council did not follow the process set out in the Financial Regulations or the guidance contained within the Governance and Accountability guide. The Council did not consider a budget based on realistic assessments on the actual cost of proposed plans and levels of expected income. Although town and parish councils are apolitical, we understand that from the 26 elected members; three different political groups presented their own budgets for consideration. Setting a budget based on historic expenditure allocations or working back to a specific figure/precept level prior to budget setting is not always appropriate. Information on actual level of income and expenditure, future plans and accurately predicated reserves are all needed to be used effectively to help support the budget process.

5.41 Despite the Scribe accounting system having the option of printing off the reports showing the variance of actual spend against the budget; the budget monitoring reports were not presented to Council during the financial year. The RFO has confirmed that going forward, these reports will be made available to Council (or each standing committee with a delegated budget) on a quarterly basis.

- 5.42 We were provided with a copy of the budget and considered the information that was available to us in the Council minutes. We were unable to ascertain what level of reserves if any had been retained by the Council. Part of the budgetary process is to ensure there is adequate but not excessive reserves or balances.
- 5.43 Due to the significant weaknesses identified in the budget process, we must answer 'No' to assertion D as the annual precept requirement did not result from an adequate budgetary process and progress against the budget was not regularly monitored and the reserves were not appropriate.

Recommendation 19: That the Council follows each stage of the budget process as referenced within the Governance and Accountability guide when it considers the budget setting for 2021/22. Each expenditure budget should be supported by accurate information and on realistic spending assumptions. Where the Council introduces new budgets or expenditure then it should be supported by a robust business case.

Recommendation 20: That the Council considers adopting a General Reserve policy, with the level appropriate to their size and situation and plan their budget so as to ensure that the adopted level is maintained. The recommended general reserve is between 3-6 months of net revenue expenditure.

Recommendation 21: That the Council (or each standing committee with a delegated budget) is provided with a budget monitoring statement on a quarterly basis.

5.44 Income Controls Including Precept

OBJECTIVE:	Obtain assurance that income controls are in place and operating effectively.
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- 5.45 The precept represented the largest income received by the Council. We tested the precept approved to confirm that it agreed to the authority notification and the money received and banked. We can confirm that the precept demand of £189,593.58 was received in one instalment on 09 April 2019.
- 5.46 In addition to the Council's precept, the authority receives small amounts of bank interest. From the 01 April 2020, no income is expected from the toilet's donations due to the decision of the Council to permanently close them.
- 5.47 Where there is a computer-based system, the reliability of information reported by the system depends on the quality and accuracy of data input, and how it is then processed, and so tests of the integrity of data input and processing are considered as part of internal audit testing. On the payments list produced by Scribe accounting software, we noted that the data income entries were not supported by a receipt number which is requested by the system. The receipt number would identify the transaction and link it to the underlying records of vouchers and receipts. It was difficult to differentiate which income had been deposited into the bank via bank transfer and which money had been physically paid into the bank. There was no physical evidence available of the paying in book to verify the transactions against the computerised receipts list.

5.48 Two income transactions related to overpayments made to staff that had been paid back into the accounts. The first payment was a duplicate salary made payable to the former Clerk/RFO and the second payment related to the Assistant Clerk.

Recommendation 22: That all income is supported by underlying audit records such as receipts and vouchers and that the hard copies are filed with the accounts.

Recommendation 23: That all income records correspond to the accounts receipt number reference, which identifies the paying in book receipt number as the reference or transaction type ie bank transfer.

Recommendation 24: That the Financial Regulations include arrangements for recovering overpayments made to third parties and follow up arrangements for reporting it to committee or Council.

5.49 Petty Cash

OBJECTIVE:	Petty Cash: Obtain assurance that income controls are in place and operating effectively.
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5.50 The Financial Regulations does not include any provision for a petty cash float. The Clerk/RFO did not think that the Council would benefit from having a petty cash float.

5.51 Payroll Controls

OBJECTIVE:	Obtain assurance that payroll costs are supported by employment contracts, expenditure is approved and PAYE/NIC is properly operated.
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5.52 The Council employs two postholders; the Clerk/RFO and the Assistant Clerk. As an employer the Council must operate PAYE/NIC [Pay as you earn; National Insurance Contributions].

5.53 The payroll is run in-house using an online cloud system 'Payroo'. The system automatically calculates Tax and NI contributions payable to HMRC. If the correct deduction is not made by the employer, HMRC has the right to seek the lost tax and contributions from the employer. We were informed that since September 2019, the calculations had not been reported to HMRC via the payroll system, however HMRC had received the payments due by the employer. On our final audit visit at year end, we would seek confirmation from HMRC or the Council that all outstanding liabilities have been paid correctly to HMRC with the supporting data. At the time of our visit, we were informed by the Clerk that the Council would be considering changing the payroll software to the HMRC Basic PAYE tools.

5.54 Salary payments to staff are made via bank transfer payable on the last day of the month. Once the payroll is complete, the reports are provided to members at full Council for approval. This includes any monies payable for overtime. We reviewed the payroll data against the staff contracts to confirm that the correct salary payments were made. Time sheets are only completed by the Assistant Clerk and not by the Clerk/RFO. All staff as a matter of good practice and routine should be completing time sheets that should be signed off on a weekly basis by the Clerk for the manager of all staff and by the Chair of the Council or Staffing Committee for the Clerk/RFO. Due to the absence of no time sheets completed by the Clerk/RFO, we could not carry out any testing to confirm that the overtime calculations were correct and had been authorised by the Council.

- 5.55 Contracts were reviewed for the two postholders, the Clerk/RFO and the Assistant Clerk. The contract for the Assistant Clerk had been drafted but not signed due to the postholder being off sick. We have noted that both employees are paid a fixed hourly rate which is termed as a 'spot salary'. The contracts were not based on the model contracts of employment issued by the National Association of Local Councils [NALC]. Salaries for staff are normally reviewed against the NJC pay scales for Local Government Employees. Where employees are normally contracted on a fixed salary scale [comprising of x incremental points]; there should be consideration for automatic incremental rises from the 01 April subject to an annual appraisal. Where employees are paid fixed hourly rates a 'spot salary'; it is recommended that the employer reviews the salary from the 01 April each year to account for any cost of living rises. Where the Council reviews any staffing salaries, we would expect to see a confirmation in the Council or Staffing minutes of the incremental rises paid to employees in accordance with the contracts of employment.
- 5.56 The Pensions Act 2008 requires all local councils to enrol 'eligible jobholders' into a qualifying pension scheme. Eligible jobholders are aged between 22 and state pension age and currently has earnings above the trigger amount of £10,000. The Department for Local Government and Communities view (agreed by NALC) is that the duty automatically applies to Local Councils for enrolling employees into a pension scheme. Automatic enrolments allow Councils to have an affordable pension scheme other than the Local Government Pension Scheme (LGPS). Eligible employees have the opportunity to opt out of any pension schemes offered by the employer. We understand that the Council is looking into setting up a Local Government Pension Scheme. Where the Council is considering any potential schemes, we recommend that the Council refers to the NALC legal topic note 79 on 'Staff Pensions' or alternatively seeks independent advice.

Recommendation 25: That all staff contracts are reviewed to ensure they are up to date and are approved by the Council and signed by the postholder. The Council should have regards to the NALC model contract of employment.

Recommendation 26: Where staff are employed on a fixed 'spot salary' consideration should be given to reviewing the salary on an annual basis to account for any cost of living rises from the 01 April each year. Alternatively, the Council may wish to transfer staff to a salary scale having regards to the NALC model contract of employment and the 'National Agreement on Salaries and Conditions of Service of Local Council Clerks in England and Wales 2004'.

Recommendation 27: That the Council considers a pension scheme for eligible jobholders in accordance with the Pensions Act 2008. The Council should have regards to the staff contract clauses that stipulate any pension provisions as this will assist the Council in determining what type of scheme is to be considered.

5.57 Asset Register

OBJECTIVE:	Obtain assurance that all material assets are accounted for correctly.
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- 5.58 An asset register is the starting point for any system of financial control over assets as it facilitates the effective physical control over assets; provides the information that enables the Council to make the most cost-effective use of its capital resources and ensures that no asset is overlooked or underutilised and is therefore used most efficiently. Most assets should be first recorded in the asset register at their actual purchase cost. In some cases, the purchase cost may not be known at

acquisition, therefore a nominal fee of £1.00 should be entered. The date of acquisition, location and disposal should be included within the asset register.

- 5.59 The start point is the asset register that has been agreed for the end of the previous financial year. The Financial Ledger should be reviewed for all purchases made during the year and updated accordingly. During the course of our audit we found that the Asset Register had not been updated since the last financial year. The Asset Register did not include a column within the register to indicate the replacement value for each individual asset. A replacement value within the Asset Register is normally used for insurance purposes to inform the insurers of Council assets replacement value of items and not the purchase price as per the Asset Register. We noted that the asset register did not have a reference number for each item or details of the custodian/responsible officer.
- 5.60 In compliance with Financial Regulation 14.3; the Council or the Finance Committee should have arrangements in place to ensure that an annual inspection of Asset Register items is carried out to ensure that all such items can be physically verified. Any assets which cannot be located should be removed from the Asset Register and recorded in the Schedule of Disposals. The Asset Register and Schedule of Disposals should be reviewed annually by the Finance Committee and then approved by the Council at the same time as the approval of the Annual Return.

Recommendation 28: That the Asset Register is updated to include all fixed assets purchased by the Council from the 01 April 2019 to 31 March 2020.

Recommendation 29: That improvements are made to the Asset Register to include a reference number for each individual item, the purchase cost, the replacement/insurance valuation, custodian/responsible officer and details of disposal (if applicable).

Recommendation 30: That the Council arranges an annual inspection of the asset register items to ensure that all items listed can be physical verified and subsequently reported to the Finance Committee or Council.

Recommendation 31: That the Council introduces an Asset Register Policy which outlines the procedure for updating and maintaining the register, and to include a particular method of asset valuation to be applied consistently from year to year in accordance with the recommended practices set out in the Governance and Accountability for smaller authorities. The method of asset valuation adopted should be set out within the policy approved by the Council and recorded in the minutes and in the asset register.

- 5.61 We will be reviewing the recommendations addressed in relation to the asset register during our final audit visit in May which will assist us to answer our internal audit assurance on the AGAR relating to the Council's fixed assets.

5.62 [Other Matters] Local Government Data Transparency Code 2015

- 5.63 The Council's website is a more important method of communication with residents as well as being part of the statutory requirement for the publication of Councillors register of interests, more frequently referred to as Disclosable Pecuniary Interests (DPI's) and the statutory requirement regarding the publication of the Annual Returns and the Transparency Code. This requires smaller authorities with a turnover below £25,000 per annum or over £200,000 to publish a lot more information on its website which came into effect from 1 April 2015. Agendas, Minutes and Meeting Documents must also be published within the timescales set by the Code.

- 5.64 Although Morecambe Town Council does not have to currently comply with the code due to the precept of £189,593.58 coming under £200,000; it is recommended good practice that the authority prepares itself to comply with the code as it's likely that the precept will increase over the next few years. Openness and transparency can assist in setting out the Councils commitment to engage with residents by encouraging them to become actively involved in decisions that affect them and the community, to deliver better services and to improve the quality of life of residents by creating a more active and informed community.

Recommendation 32: That the Council considers improvements to the Council website in preparation and in compliance with the Local Government Data Transparency Code.

6. [General] Additional Comments / Recommendations

- 6.1 Discussions were held with the Clerk regarding payments made to Morecambe BID. The payment from the Town Council had contributed towards the cost of planters at the promenade. These transactions fall outside of the current financial year that is subject to audit and therefore we could not carry out any testing. It is not the role of internal audit to detect any error or fraud, however we understand that this matter has been correctly referred to the relevant authority for further investigations, at the time of our visit.

Recommendation 33: That the Councils Financial Regulations include provisions for jointly funded projects: Where the Council is considering a contribution to a jointly funded project, then it must be subjected to a robust business case. Payments should only be made to jointly funded projects that fall outside of the grant criteria but within a committee's terms of reference.

- 6.2 We understand that there have been some concerns surrounding declarations of interests at Council meetings. All Councillors are legally bound to declare any pecuniary interests in accordance with the Localism Act 2011. Where officers have an interest in a Council contract then it should be declared to the authority in compliance with the Local Government Act, section 117 'Disclosure by officers of interest in contracts. Members and Officers who have a pecuniary interest should withdraw themselves from the decision-making process.

Recommendation 34: The Council should consider introducing an Officers Declarations of Interests Form to be completed by its employees and retained on file. As a matter of good practice, all Council agendas should include a dedicated agenda item for Officers to declare any interests in accordance with the Local Government Act Section 117.

- 6.3 The Clerk provided some background information relating to members concerns of alleged maladministration. The Council had considered commissioning an audit of all its financial transactions from 2015 to 2019. Should the Council wish to have an audit investigation of this nature, then it will need to be clear as to what are the terms of reference for the investigation before commissioning a contractor. Internal Audit Yorkshire can assist the Council with this piece of work and we would be happy to provide a quotation.
- 6.4 On a final point, we would like to acknowledge the challenges the Council and the new Clerk/RFO has faced in the last year. The Clerk/RFO is aware of the weaknesses in the current internal control

systems within the Council and we have been informed that improvement plans are being put into place to move the Council forward in a positive direction. Some of the improvement plans include an independent Governance Health Check audit which will review how well the Council is functioning in terms of its governance, and its operational framework. The Clerk is aware of the importance of addressing the recommendations contained within this report which Internal Audit Yorkshire will follow up during the 2020/21 financial year.

Recommendations Action Plan attached in Appendix document

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End of Report

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Interim Internal Audit Report 2019/20

Appendix [Action Plan]

No	Recommendation	Responsibility	Timescale
1	The previous year's annual return figures must agree with the current year's opening balances in the cash book; therefore, we recommend that the opening balances from 01 April 2019 are entered into the cashbook correctly to ensure it is up to date and records the Councils opening cash balances [We understand at the time of our visit, the Clerk had corrected the opening balances with Scribe support. We will verify this when we review the year end accounting statements].		
2	Where the Council is operating with two separate bank accounts, a separate bank reconciliation should be performed and carried out for each account.		
3	That the Finance and Governance committee appoints a member, other than a cheque signatory to verify the bank reconciliation statements for all accounts (produced by the RFO), to be verified in the presence of committee members and formally minuted.		
4	That the bank reconciliation statements should eliminate all entries for the next month with the exception of month 12 of the financial year, which should include all entries as at 31 March.		
5	That the Standing Orders and Financial Regulations are reviewed to ensure that they are up to date in accordance with the latest National Association of Local Council [NALC] model documents and tailored to the Council as required.		
6	That an accounts audit stamp is used for all invoices to record details of the Certifying Officer, Authorisation Reference, PO Number, Cost Centre/Code, Date Paid, Cheque Number.		
7	That the Council sets up a purchase order system and implements this into their financial practices as required in accordance with the Financial Regulations.		
	That all invoices indicate the authorisation minute reference or Financial Regulation reference that authorises the payment. That all invoices are accompanied by a purchase order [where applicable] or		

8	reference to a purchase order number, contract or Financial Regulation reference where payment is made on account or via a direct debit arrangement.		
9	That improvements are made to the payments schedule presented to Council [or Committees] to include an authorisation reference column that confirms the authorisation of each individual payment and the power the Council is relying on to incur the expenditure [this will determine whether the payments are lawful and represent best value for money in accordance with FR 10.4]		
10	Where online banking transactions are made, a receipt of the online payment should be attached to the invoice as verification that the correct payment is made [for audit purposes].		
11	That a specific grant form is introduced by the Council which includes adequate terms and conditions for applicants and the maximum sum of money to be applied for with any supporting documentation as determined by the authority.		
12	That the Council follows the Financial Regulations procurement process and obtains the necessary quotes for all future contracts exceeding £1,000 unless there is an exemption that has been applied in accordance with Financial Regulation 10.		
13	That a Scheme of Delegation is introduced for Committees and Officers incorporating each individual committees' terms of reference.		
14	Where the Council introduces a charge card; we recommend that the operation of the charge card follows any requirements to be introduced into the Financial Regulations and that appropriate procedures are in place to manage their use. Procedures should include the limit of the cards, designated card holders and a process in place for cancellation in the event the card holder leaves.		
15	That a Risk Management Policy is introduced and adopted by the Council. The policy should outline processes involved in regards to risk assessments and the Councils internal controls procedure and responsibility for implementing the policy.		
16	That the Council carries out an annual review of the risk assessment before the 31 March 2020 to include all key risks facing the Council and controls in place to reduce the level of risk.		
17	That the Councils insurers are provided with a copy of the updated asset register and that the assets with the latest replacement values are insured [see section 5.57]		

18	That the Council introduces policies relevant to the authority to comply with the General Data Protection Regulations. The Society of the Local Council Clerks (SLCC) have a GDPR Checklist and model policies that the Council should consider adopting as required. Alternatively, the Council may wish to contact their local County Association for support.		
19	That the Council follows each stage of the budget process as referenced within the Governance and Accountability guide when it considers the budget setting for 2021/22. Each expenditure budget should be supported by accurate information and on realistic spending assumptions. Where the Council introduces new budgets or expenditure then it should be supported by a robust business case.		
20	That the Council considers adopting a General Reserve policy, with the level appropriate to their size and situation and plan their budget so as to ensure that the adopted level is maintained. The recommended general reserve is between 3-6 months of net revenue expenditure.		
21	That the Council (or each standing committee with a delegated budget) is provided with a budget monitoring statement on a quarterly basis.		
22	That all income is supported by underlying audit records such as receipts and vouchers and that the hard copies are filed with the accounts.		
23	That all income records correspond to the accounts receipt number reference, which identifies the paying in book receipt number as the reference or transaction type ie bank transfer.		
24	That the Financial Regulations include arrangements for recovering overpayments made to third parties and follow up arrangements for reporting it to committee or Council.		
25	That all staff contracts are reviewed to ensure they are up to date and are approved by the Council and signed by the postholder. The Council should have regards to the NALC model contract of employment.		
26	Where staff are employed on a fixed 'spot salary' consideration should be given to reviewing the salary on an annual basis to account for any cost of living rises from the 01 April each year. Alternatively, the Council may wish to transfer staff to a salary scale having regards to the NALC model contract of employment and the 'National Agreement on Salaries and Conditions of Service of Local Council Clerks in England and Wales 2004'.		

27	That the Council considers a pension scheme for eligible jobholders in accordance with the Pensions Act 2008. The Council should have regards to the staff contract clauses that stipulate any pension provisions as this will assist the Council in determining what type of scheme is to be considered.		
28	That the Asset Register is updated to include all fixed assets purchased by the Council from the 01 April 2019 to 31 March 2020.		
29	That improvements are made to the Asset Register to include a reference number for each individual item, the purchase cost, the replacement/insurance valuation, custodian/responsible officer and details of disposal (if applicable).		
30	That the Council arranges an annual inspection of the asset register items to ensure that all items listed can be physical verified and subsequently reported to the Finance Committee or Council.		
31	That the Council introduces an Asset Register Policy which outlines the procedure for updating and maintaining the register, and to include a particular method of asset valuation to be applied consistently from year to year in accordance with the recommended practices set out in the Governance and Accountability for smaller authorities. The method of asset valuation adopted should be set out within the policy approved by the Council and recorded in the minutes and in the asset register.		
32	That the Council considers improvements to the Council website in preparation and in compliance with the Local Government Data Transparency Code.		
33	That the Councils Financial Regulations include provisions for jointly funded projects: Where the Council is considering a contribution to a jointly funded project, then it must be subjected to a robust business case. Payments should only be made to jointly funded projects that fall outside of the grant criteria but within a committee's terms of reference.		
34	The Council should consider introducing an Officers Declarations of Interests Form to be completed by its employees and retained on file. As a matter of good practice, all Council agendas should include a dedicated agenda item for Officers to declare any interests in accordance with the Local Government Act Section 117.		