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# **Margate Charter Trustees**

*Internal Audit Report 2018-19 (Interim)*

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## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2018-19 financial year, during our interim visit to the Charter Trustees on 7<sup>th</sup> November 2018.

## **Internal Audit Approach**

In commencing our review for 2018-19, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/AGAR. Our programme of cover has again been designed to afford appropriate assurance that the Charter Trustees' financial systems remain robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Charter Trustees' own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' in the Charter Trustees' AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, based on the programme of work undertaken to date, the Charter Trustees have continued to maintain adequate and effective internal control arrangements. We are pleased to acknowledge the quality of records maintained by the Clerk and thank her for her continued assistance, which has ensured the smooth progress of our review process.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Clerk to the Trustees continues to keep the accounting records on excel spreadsheets with one operational bank account currently maintained at HSBC Bank Plc.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- Checked to ensure that the opening balance detail as entered on the 2018-19 Excel spreadsheet agrees with that in the 2017-18 Statement of Accounts and certified AGAR;
- Ensured that the accounts are balanced and reconciled to the bank account at the close of each month;
- Checked to ensure that an appropriate expenditure analysis remains in place;
- Checked and agreed detail of all transactions in the spreadsheet to the relevant HSBC bank statements for the year to 30<sup>th</sup> September 2018;
- Checked and agreed detail on the bank reconciliations prepared as at 31<sup>st</sup> May and 30<sup>th</sup> September 2018; and
- Noted that the IT systems are all backed-up daily to an external server, provided by the Trustees' IT provider.

### *Conclusions and recommendation*

*We are pleased to report that no significant issues arise in this review area, although we consider that spreadsheet cashbook (hard copies) and supporting bank statements should be reviewed and signed off by a nominated Trustee, in line with best practice and was previously the case.*

*We shall extend our review of the accounting records for the remainder of the year at our final visit, ensuring the accurate disclosure of the year-end cash balances in the year's AGAR.*

*RI. The process of reviewing and signing off by a Trustees the monthly spreadsheet cashbooks and bank statements should be reimplemented in line with best practice.*

## Review of Corporate Governance

Our objective is to ensure that the Trustees have robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain as we do not attend meetings, meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have:

- Reviewed the minutes of the Trustees and extant standing Committees, where applicable, for the year to 30<sup>th</sup> September 2018 to identify whether any issues exist that may have an adverse effect on the Trustees' future financial stability, either in the short, medium or longer term with no such issues apparent; and

- Noted that revised Financial Regulations were reviewed and adopted at the Meeting held 14<sup>th</sup> May 2018, revised Standing Orders having been adopted in a previous year.

In discussion with the Clerk, we understand that receipts for expenditure incurred against the Mayor' and Deputy Mayor's allowances are not routinely provided. As these funds are provided from public sources (i.e. the precept) they are subject to the same level of public scrutiny under the Transparency Code and should be provided to and retained in the Trustees' office in the event that any member of the public wishes to examine them.

### ***Conclusions and recommendation***

*We are pleased to report that no significant issues arise in this area of our review process at this stage: we shall continue our examination of minutes at future visits, also reviewing the Trustees' approach to governance. However, in examining the Standing Orders, we note that they make no reference to the requirement for formal Financial Regulations to be in place or to any contracting arrangements. Following an update in EU and Public Contracts legislation in 2015, we consider that the Standing Orders could do with a degree of revision and expansion to include financial considerations. We have provided the Clerk to the Trustees with an electronic copy of the latest NALC model document applying to town and parish councils and suggest that this be used as a suitable template for the revision to Standing Orders.*

*Additionally, whilst not a legal requirement, best practice suggests that all public bodies should develop a raft of detailed financial procedures, sometimes derogatorily referred to as "idiot's guides", covering payroll preparation, processing of payments and general maintenance of financial records. These would then assist in the event that the Clerk was unavailable for any lengthy period of time.*

- R2. The Trustees' Standing Orders should be revised and expanded to include appropriate cross-referencing to the Financial Regulations and extant legislation affecting, inter alia, contracting.*
- R3. Consideration should be given to the development of detailed financial procedures setting out clearly the steps to be taken in processing all financial matters.*
- R4. Expenses incurred against the Mayor and / or Deputy Mayor's allowances should be supported by appropriate invoices and till receipts which should be retained in the Trustees' office in the event that any member of the public wishes to inspect them.*

## **Review of Expenditure & VAT**

Our aim here is to ensure that: -

- Trustee resources are released in accordance with the Trustee approved procedures and relevant statutory powers;
- Funds are expended in accordance with approved budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;

- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount; and
- VAT has been appropriately identified for periodic recovery.

We have examined the procedures in place for the control of expenditure, noting that payments are made “on-line” and have been actioned by the Clerk to the Trustees. We note that payments are signed off by the Mayor and one other Trustee and that invoices are initialled when paid. We further note that listings of payments are provided to Trustee meetings.

In testing the effectiveness of controls and for compliance with the above criteria, we have, due to their low volume, examined all payments for the year to 30<sup>th</sup> September 2018.

We are pleased to note that a VAT reclaim for 2017-18 was prepared and submitted to HMRC with repayment being duly received in May 2018.

### *Conclusions*

*We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation at this time. We shall extend our review of expenditure at our final visit examining all transactions for the remainder of the year also ensuring that a VAT reclaim for the year has been prepared and submitted to HMRC accordingly.*

## **Assessment and Management of Risk**

Our aim here is to ensure that the Trustees have put in place appropriate arrangements to identify all potential areas of risk of both a financial and health / safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition.

We have examined the Trustees’ insurance policy for the current year, noting that cover continues with Zurich to 29<sup>th</sup> September 2021 with Employer’s Liability at £10 million and Public Liability in place at £15 million and Fidelity Guarantee cover in place at £250,000.

We note that the 2017-18 Risk Assessment was approved by the Trustees at their meeting on 5<sup>th</sup> March 2018 and take this opportunity to remind the Clerk and Trustees that the assessments should be subjected to annual review and formal re-adoption.

### *Conclusions*

*We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation other than in relation to the need for annual review and re-adoption of the risk registers.*

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Trustees have a robust process in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place; We also aim

to ensure that appropriate funds are retained in reserves to finance the Trustees' ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note that a detailed budget exercise for 2018-19 was undertaken and approved by Trustees at the meeting on 15<sup>th</sup> January 2018.

We also note from our review of the minutes that members are periodically provided with reports comparing actual expenditure to budget the most recent being presented to the August 2018 meeting. We have examined the content of that report and are pleased to record that no issues arise.

### **Conclusions**

*No matters arise in this area warranting comment or recommendation currently: we will undertake further work at our final visit ensuring the appropriate formal agreement and adoption of the 2019-20 budget and precept, also examining the year-end budget outturn and considering the ongoing appropriateness of the retained reserves to meet the Trustees ongoing revenue spending and any "development" aspirations.*

## **Review of Income**

The Trustees receive income from a very limited number of sources, primarily the annual precept; occasional grants and contributions towards Trustees' sponsored events and reclaimable VAT. The Trustees also receive income from the "Blessing of the Seas" although this is normally a net expense to the Trustees.

We have checked detail of income received to date in the year to available supporting documentation with no issues arising.

### **Conclusions**

*We shall undertake further work in this area at our final visit ensuring that, as far as we are reasonably able, all income due has been received and brought to account appropriately.*

## **Petty Cash Account**

No formal petty cash account is in operation, any expenses incurred by the two employees being reimbursed directly through the usual payment channel generally each month.

## **Review of Salaries**

We aim, in this area of our review process, to ensure that staff are paid in accordance with rates approved by the Trustees and in line with the terms of their employment contracts, that tax/NI and any pension contributions payable are calculated in accordance with current legislation and appropriate deduction rates and that they are paid over to the relevant agencies accurately and in a timely manner. To achieve this objective, we have: -

- Reviewed the Trustees' payroll preparation procedures, noting that the payroll is processed "in house" using bespoke Sage payroll software;

- Confirmed, by reference to the October 2018 payslips, that each member of staff has received the correct gross salary in line with the Trustees' approved rates;
- Checked to ensure that any enhanced overtime hours are paid in accordance with appropriately prepared and certified time records;
- Checked to ensure that Income Tax and NIC deductions have been made applying the appropriate PAYE codes and NIC Tables;
- Ensured that the appropriate deductions and contributions have been paid over to HMRC in a timely manner;
- Checked to ensure that the appropriate percentage deduction rate has been applied in respect of pension contributions; and
- Verified that the appropriate net pay has been paid to each employee for the month in accord with the summary payments listing and relevant cashbook and bank statement entries.

We again note that one member of staff is in dispute with the Trustees regarding their contract of employment and claimed overtime and will monitor any developments in this respect at our final visit.

### ***Conclusions and recommendation***

***In examining the payroll procedures, we note that employment contracts appear to be or are "out-of-date" and required revision and formal issue to staff for their agreement and signature. We also noted that timesheets are not being signed by the employee and a counter signatory confirming that any overtime hours were necessarily worked on behalf of the trustees.***

*R5. Staff employment contracts should be updated to reflect the Trustees requirements, be issued to officers for agreement and "sign-off" indicating acceptance.*

*R6. Where variable hours are worked, the timesheets should be signed by both the employee and their line manager (a nominated Trustee in the case of the Clerk), the latter confirming the appropriateness and accuracy of the additional claimed hours.*

## **Investments and Loans**

The Trustees have neither any long-term investments nor loans either repayable by or to them.

Rec. No.	Recommendation	Response
<b>Maintenance of Accounting Records and Bank Reconciliations</b>		
R1	The process of reviewing and signing off by a Trustees the monthly spreadsheet cashbooks and bank statements should be reimplemented in line with best practice.	
<b>Review of Corporate Governance</b>		
R2	The Trustees' Standing Orders should be revised and expanded to include appropriate cross-referencing to the Financial Regulations and extant legislation affecting, inter alia, contracting.	
R3	Consideration should be given to the development of detailed financial procedures setting out clearly the steps to be taken in processing all financial matters.	
R4	Expenses incurred against the Mayor and / or Deputy Mayor's allowances should be supported by appropriate invoices and till receipts which should be retained in the Trustees' office in the event that any member of the public wishes to inspect them.	
<b>Review of Staff Salaries</b>		
R5	Staff employment contracts should be updated to reflect the Trustees requirements, be issued to officers for agreement and "sign-off" indicating acceptance.	
R6	Where variable hours are worked, the timesheets should be signed by both the employee and their line manager (a nominated Trustee in the case of the Clerk), the latter confirming the appropriateness and accuracy of the additional claimed hours.	