



Morecambe Town Council

Internal Audit 2020/21

JDH BUSINESS SERVICES LTD

The internal audit of Morecambe Town Council is carried out by undertaking the following tests as specified in the AGAR Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Reviewing the asset and investments registers
- Testing the accuracy and timeliness of bank account reconciliations.
- Year end testing on the accuracy and completeness of the financial statements
- Checking that during the previous year (2019-20), the council correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations
- Reviewing whether the council has complied with the publication requirements for 2019/20 AGAR.

Conclusion

The action plan below details significant issues and recommendations that cover almost the entire scope of the council business, internal control objectives and associated governance. Until the latter part of the 2020/21 financial year when the new clerk and council took comprehensive action to address identified issues, there were numerous financial internal control weaknesses at the council. However, to enable us to conclude that an improved or

new internal control has been operating consistently and effectively over a reasonable period of time, we will be following up all our recommendations in 2021/22.

Due to the fact that internal controls were not operating effectively for a significant portion of the financial year, and on the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the **council's system of internal controls was NOT in place, adequate for the purpose intended and effective, and all outstanding recommendations in the action plan overleaf should be implemented promptly.**

JDH Business Services Limited

	ISSUE	RECOMMENDATION	FOLLOW UP
AGAR internal control objective A – Appropriate Accounting Records kept throughout financial year			
1	<p>The prime book of record of the council has changed during the year and is due to change again in 2021/22. Initially the council recorded transactions using the SCRIBE accounting system. The new clerk has replaced this system with an excel spreadsheet that now records all transactions for the 2020/21 financial year. The council has authorised that the accounting will be carried out using the RBS omega system from April 1st 2021.</p>	<p><i>The council should ensure that all balances are accurately transferred to the new RBS accounting system from April 1st 2021 and that the excel spreadsheet system is then discontinued. Budgetary control reports should be produced directly from the RBS system.</i></p>	
AGAR internal control objective B – Compliance with Financial Regulations, payments supported by invoices, all expenditure approved and VAT appropriately accounted for			
2	<p>There was no signed confirmation of receipt or acceptance letter for grants awarded prior to the establishment of the Grants committee.</p>	<p><i>A confirmation of receipt and acceptance letter should be secured for all significant grants and donations.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
3	<p>Review of the minutes identified that monthly payments schedules were not always provided to members on a timely basis. For instance, the minutes of the December 17th 2020 council meeting evidence that the council unanimously resolved that the expenditure lists for July, August, September, October, and November 2020 be approved.</p>	<p><i>Expenditure should be reported monthly to each council meeting for approval. The minutes should record the total of the payments that were approved to improve the audit trail. The Chair should initial the schedule of monthly payments to evidence that this was the list approved by council which should be retained on file as evidence.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
4	<p>Financial Regulations, Standing Orders and Committees</p> <p>Two set of Financial Regulations (FRs) applied in the year as an updated set of FRs were adopted by the council on November 5th, 2020.</p> <p>The FRs in place for the period from April 1st to November 4th 2020 contained no detailed regulations identifying the authorisation and access controls to be applied to BACS and online banking payments, even though most payments were made via this method. This has been rectified in the updated FRs which contain clear regulations regarding online banking payments.</p> <p>Committee structure - We were informed the Environment Committee and Festivals Committee had not been previously constituted by full council, therefore, there was no adopted terms of reference or resolution specifying the membership of the committees by full council. The Environment Committee met during 2020/21 on June 18th, 2020 and a meeting of the Festivals Committee took place on May 19th, 2020. In addition, the new clerk has noted that the F&G Committee met on 20th May 2020 and 17th June 2020 without a previous full council resolution confirming membership.</p>	<p><i>No recommendation – the updated FRs adopted by the council on November 5th, 2020 contain clear regulations regarding online banking access and authorisation controls.</i></p> <p><i>The council should constitute all committees and sub committees including the terms of reference and the membership of each committee. (NB the council has now constituted and adopted terms of reference for all current committees, therefore, this recommendation has been implemented.).</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
5	<p>No evidence was provided that contracts in excess of the £1000 threshold in the FRs that were in place from April 1st to November 4th 2020 had been procured in accordance with the FRs. The updated Financial Regulations adopted from November 5th 2020 contained a higher threshold of £10,000 for securing three quotations.</p>	<p><i>All supplies should be procured in accordance with the Financial Regulations.</i></p>	
6	<p>Both sets of Financial Regulations (FRs) that were in place during the financial year refer to a Purchase Order (PO) system as follows 'An official order or letter shall be issued for all work, goods and services unless a formal contract is to be prepared or an official order would be inappropriate.'</p>	<p><i>The council should ensure Purchase Orders are utilised where deemed appropriate.</i></p>	
7	<p>The enforcement officer SLA expired in June 2017, however, we could not identify a signed extension to the SLA approved by council. The Council did consider a revised SLA at the July 2020 meeting.</p>	<p><i>The council should ensure a signed enforcement officer SLA covering all periods of funding is in place that defines the inputs, outputs and outcomes the council require from the arrangement.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
8	<p>The current councillor checks on financial information such as online payments and payroll should incorporate further fraud prevention controls.</p>	<p><i>All changes to remuneration should be notified to the payroll agent either via a signed minute or by the Chair of the council.</i></p> <p><i>Supplier fraud prevention controls – a nominated councillor should check bank details for the first payment to a supplier to a signed confirmation letter from the supplier. The same procedure should apply where a supplier has purported to have changed bank accounts (particularly if the request is via email).</i></p>	
<p>AGAR internal control objective C – Adequate Risk Assessment</p>			

	ISSUE	RECOMMENDATION	FOLLOW UP
9	<p>Although a risk assessment was reviewed, updated and approved by council during the financial year it does not cover the following:</p> <ul style="list-style-type: none"> - The risks of supplier fraud. - Risks of non-compliance with the Data Protection Act 2018. (We have noted a formal Data Protection Policy was not adopted until December 2020) - The clerk reported to the council in the mid-year internal controls review that there is no evidence to demonstrate the council is complying with the Health and Safety at Work Act. Therefore, the council is at risk of not complying with key legislation. 	<p><i>The risk assessment should be updated to include:</i></p> <ul style="list-style-type: none"> - <i>supplier fraud prevention including the adequacy of supplier onboarding controls.</i> - <i>risks of non-compliance with the DPA 2018 including adequate systems to detect and prevent data breaches</i> - <i>risk mitigation actions to ensure the risks of non-compliance with the legislation identified by the clerk in the mid-year internal controls review are addressed</i> <p><i>NB The council has taken action in April 2021 to help address health and safety issues by adopting a Health and Safety Policy.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
10	<p>ICO and data protection risk issues</p> <p>The September council meeting indicates that the personal data of two members has been breached and that a Decision Notice has been received from the ICO in respect of eleven requests made under the Freedom of Information Act. The decision notice upheld the complaint and required the council to take specified action to ensure compliance with the legislation.</p> <p>There is currently no adopted data breach policy and associated procedures.</p>	<p><i>All councillors and staff should undertake training in the data protection requirements of the DPA 2018 and cybersecurity awareness.</i></p> <p><i>A data breach policy and associated procedures should be adopted by the council.</i></p>	
<p>AGAR internal control objective D – Precept request resulted from adequate budgetary process, regular budgetary control and appropriate levels of reserves held</p>			

	ISSUE	RECOMMENDATION	FOLLOW UP
1 1	<p>We could not identify a detailed budget that was presented to council to support the 2020/21 precept request. We are informed the budget approved at the February 2020 meeting did not satisfy FRs as it was not prepared by the RFO.</p> <p>The budget was revised at the meeting of 26th March 2020. However, we are informed that the notice/agenda for the meeting was not published or sent to members until Wednesday 25 March 25th, 2020, which contravenes Section 10 (2) (a) of Part 2 of Schedule 12 of the Local Government Act 1972 that advises a notice must be published at least three clear days before a meeting of a local council.</p> <p>We have not been provided with any minutes of the March 26th 2020 meeting and have been informed that it does not appear any minutes were taken for the meeting to prove that the meeting was duly convened and held. This contravenes Local Government Act 1972 Schedule 12 Part VI Section 41 (1).</p>	<p><i>The RFO should annually, (no later than January of the financial year), prepare detailed estimates of all receipts and payments including the use of reserves and all sources of funding for the following financial year and produce a budget to be considered by the council. (NB we were informed by the new clerk that the precept setting process for 2021/22 complied with Financial Regulations and we will review this as part of the 2021/22 internal audit).</i></p> <p><i>The council must consider the annual budget proposals prepared by the RFO before it sets the precept.</i></p> <p><i>Minutes should be produced for all meetings and notices (including an agenda) provided within the statutory time limits in accordance with the requirements Local Government Act 1972.</i></p>	

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1 2	<p>No budgetary control information was presented to council for the first quarter of the financial year. This is in breach of the Financial Regulations which require that:</p> <p>‘The RFO shall regularly provide the Council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget. These statements are to be prepared at least at the end of each financial quarter.’</p> <p>The new clerk has been providing quarterly budgetary control reports as required by the FRs.</p>	<p><i>Regular budgetary control information must be provided to the council.</i></p> <p><i>When the RBS omega system is implemented the council should consider reviewing monthly budgetary control reports produced directly from the RBS system.</i></p>	
1 3	<p>There is no approved year end statement of earmarked reserves. The year end general reserves of £213694 are in excess of 100% of the precept (113%). Sector guidance is that general reserves should be maintained at a level between 25% and 100% of the precept.</p>	<p><i>The council should annually review the level of general reserves with reference to sector guidance and its reserves policy, and set aside any required earmarked reserves. The level of earmarked and general reserves should be disclosed in the accounts papers.</i></p>	
<p>AGAR internal control objective E – Expected income fully received, correctly priced, recorded and promptly banked and VAT accounted for</p>			
	No issues identified in internal audit		
<p>AGAR internal control objective G – Wages and salaries and members allowances paid in accordance with council approvals, and PAYE and NIC requirements properly applied</p>			

	ISSUE	RECOMMENDATION	FOLLOW UP
1 4	<p>Staff costs and payroll</p> <p>The contract of employment for the previous clerk contract is not signed and does not state the rate of pay.</p> <p>We were informed that the approvals for the levels of remuneration via scale point increases were not previously recorded in the minutes. Therefore, there is no audit trail to verify that the rate of remuneration for each year of previous employees had been formally set by council. There is acknowledgement of this lack of audit trail as the Council meeting of February 18th 2021 (minute 20214) notes that not all HMRC records have been retained for all members of staff and there are inadequate minutes/documentation to provide accurate information to create the records. The council has unanimously resolved to write to HMRC and report this matter.</p> <p>The current clerk was issued with a contract of employment in July 2020, however, this had not been approved by the Council. This has now been rectified with the appointment and contract approved in a subsequent council meeting.</p>	<p><i>All contracts of employment should be signed by both parties to the agreement and should always state the starting remuneration of the employee.</i></p> <p><i>All changes to the rate of remuneration to staff, such as a scale point increase, must be authorised by recording this in the minutes.</i></p> <p><i>All required HMRC documentation for all staff should be produced within deadlines and retained according to legal retention requirements. We note that a payroll agent is now processing the payroll for the council.</i></p> <p><i>The appointment and contract for the clerk and RFO should always be approved by full council.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
1 5	<p>No expenses policy or register of expense allowances existed during 2020/21 financial year. Therefore, there was no definition of the types of expenses that could be claimed, the rates that could be claimed for different categories of expense such as mileage, a standardised expenses claim form, requirements for receipts including VAT invoices, or an approval process. An expenses policy was adopted in April 2021.</p> <p>We carried out a walkthrough review of one expenses payment of £96 for June 2020 but we were unable to secure supporting documentation to substantiate the claim. In addition, the total of the expense claim plus the net pay recorded on the payroll sheet was £19 less than the total amount actually paid to the officer.</p>	<p><i>An expenses policy must be in place for every financial year.</i></p> <p><i>All expense claims must be made on a standard claim form, with vouchers including VAT receipts attached, and claims authorised as required by the expenses policy.</i></p> <p><i>All expense claims must be independently totalled and checked to ensure the correct amount is paid.</i></p>	
<p>AGAR internal control objective H – Asset and investment registers complete and accurate and properly maintained</p>			

	ISSUE	RECOMMENDATION	FOLLOW UP
1 6	<p>The fixed asset listing remains unchanged for the 2019/20 version and there is no evidence the fixed asset register has been reviewed to identify whether:</p> <ul style="list-style-type: none"> - all assets physically exist - write offs are needed for obsolescence, - assets have been matched with the insurance schedule to ensure all assets are appropriately insured <p>The council also needs to ensure that comprehensive identifying information is included for all assets as one of the entries in the register has no description for the asset (dated 2011 value £681.52). Therefore, it is not clear how the council will be able to identify whether this asset exists.</p>	<p><i>The management of the fixed asset register should be improved and clear identification information must be recorded for all fixed assets. A comprehensive exercise is needed to validate the completeness and accuracy of the register, including verifying the following:</i></p> <ul style="list-style-type: none"> - <i>all recorded assets physically exist</i> - <i>whether write offs are needed for obsolescence</i> - <i>assets have been matched with the insurance schedule to ensure all assets are appropriately insured</i> 	
<p>AGAR internal control objective I – Periodic and year end bank reconciliations were properly carried out</p>			

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1 7	<p>The previous system in place at the council was that bank reconciliations were produced quarterly and reported to council.</p> <p>Regular bank reconciliation is a key management tool as it assists with the regular monitoring of cash flows which aids decision-making, However, in 2020/21 the first bank reconciliation reported to council covered the first six month period, and then reverted back to the quarterly reporting basis.</p>	<p><i>Bank reconciliations should be reported to council at least quarterly. When the council has implemented the RBS omega system consideration should be given to monthly reporting of the bank reconciliation which should be signed by a Councillor who is not a signatory to online banking payments.</i></p>	
<p>AGAR internal control objective J – Accounting statements were prepared on correct accounting basis, agreed to cash book, and were supported by an adequate audit trail</p>			
1 8	<p>The 2019/20 accounts have been restated as receipts and payments accounts with the 2020/21 accounts prepared on the same basis. The council has not approved this fundamental change in accounting policy.</p>	<p><i>The change in accounting policy to preparing receipts and payments accounts should be approved by the council and recorded in the minutes, particularly as this has resulted in the 2019/20 AGAR accounts being restated.</i></p>	
<p>AGAR internal control objectives K and L</p>			
<p>Not applicable as gross income/expenditure exceeded £25000.</p>			
<p>AGAR internal control objective M - The authority, during the previous year (2019-20) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations</p>			

	ISSUE	RECOMMENDATION	FOLLOW UP
1 9	<p>Internal control objective (Objective M) in the AGAR internal audit certificate requires internal audit to conclude whether the Public Rights Notice during the previous Summer (2019/20 financial year) was compliant with the Regulations.</p> <p>The public notice announcement date is recorded as July 3rd , 2020 with a public inspection period running from July 6th to August 14th. However, the notice was published on the website on July 15th which is 10 days into the actual period of inspection by the public. This would have severely limited the time the public would had to inspect the accounts. Therefore, we have concluded the council did not comply with the requirements for the Public Rights Notice for 2019/20.</p>	<p><i>The council should ensure compliance with the legal requirements for the Annual Notice of Public Rights.</i></p>	
<p>AGAR internal control objective N - The authority has complied with the publication requirements for 2019/20 AGAR</p>			

	ISSUE	RECOMMENDATION	FOLLOW UP
20	<p>Publication Requirements</p> <p>The Notice of Conclusion of Audit and Audit Certificate were not published by the deadline of November 30th 2020. However, this was due to a 23rd December deadline provided by external audit for responding to queries, which was later identified to be an incorrect date. The notice was finally published on December 2nd, 2020.</p>	<p><i>We have concluded in the AGAR internal audit certificate that the council did not comply with the publication requirements for the 2019/20 AGAR audit as required by the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. However, there is no recommendation as there were communication issues between the council and the external auditor that led to the delayed publication.</i></p>	
<p>AGAR internal control objective O – The council met its responsibilities as sole trustee</p>			
<p>Not applicable as the council has not disclosed that is not the sole trustee of a trust.</p>			