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Instow Parish Council
c/o Mr Malcolm Harris
Coach House
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6 July 2020

Dear Councillors,

Internal Audit 2019/20

1. Overview

Central to the Parish Council's year-end accounting and audit procedure is completion of the Annual Governance and Accountability Return 2019/20 Part 3 ("AGAR"), and this letter should be read in conjunction with the AGAR.

Page 3 of the AGAR consists of an Audit Report that includes a list of Internal Control Objectives in the form of statements (identified as A to M) to which I am required to respond Yes or No (or not applicable) to indicate whether or not I agree with them. The criterion for assessment is that the control objectives were being achieved "to a standard adequate to meet the needs of this authority", which allows a degree of latitude in responding to the statements. Though I have taken into account the Council's circumstances when ticking the relevant box, my review has indicated that not all of the objectives have been met, the reasons for my conclusions being explained below.

I have been mindful of the fact that the Council has limited resources, its only employee being a part-time Parish Clerk. Also, this has been a year of change for the Council. Of the Councillors who were in post at the start of the financial year, only one was still a Councillor at the end of the year, the other present Councillors having been appointed following the local council elections in May 2019. Also, the former Parish Clerk left the Council at end July 2019 and the present Clerk took up his appointment on 1/08/2019. The year has therefore been a learning experience for all of those having responsibility for the Council's record-keeping, financial control and governance.

Page 5 of the AGAR contains the Accounting Statement for 2019/20. I have verified that the figures on the Statement correspond to the accounting schedule and reconcile to the bank account balances.

The AGAR does not provide space for making comments, but a document listing matters to be brought to the attention of the External Auditor has been prepared.

The records examined during the audit are listed in the Appendix to this letter.

2. Accounting method

The Council uses the Receipts and Payments accounting method so only transactions dated within the year should be included in the accounts.

3. Record-keeping (internal control objective A)

Though I have not found anything that gives me cause for serious concern as to the accuracy of the accounts, the state of the accounting records (notably the invoice file) is such that it is difficult to find and verify relevant entries. Improvements need to be made.

Some invoices are missing from the file, notably Bookers' invoices. Invoices issued for the Council's services should be filed separately from supplier invoices, and there needs to be a filing system that enables invoices to be found easily. Unpaid invoices should be held securely in a separate section of the file. I suggest that a reference number should be written on each supplier invoice and entered on the Payments schedule and, once paid, invoices should be filed in reference number sequence.

The Clerk's expenses are recorded in a book and are approved by one or more Councillors before payment. Supporting vouchers are put in a folder but there needs to be a better way of filing them so they can be related to the entries in the book. The Council does not hold petty cash.

4. Cash receipts and payment authorisation

I can affirm that all cash received was properly recorded and banked and that, with the exception of a few debit card payments and direct debits, all payments made were properly authorised.

A number of payments are made by standing order and direct debit. I recommend that the mandates for these payments are reviewed and re-authorised by the Council at the start of each financial year or if the terms are changed.

5. VAT

During the year the Council took advice from a specialist in Local Authority VAT, and registered for VAT. It is particularly important that all invoices recording VAT are filed and kept for 6 years, or at least until there is no possibility of an HMRC audit. It is also important that VAT is correctly stated on the invoice listings.

6. Cash book entries

The former hand-written cash book has been replaced by spreadsheets. This has the obvious advantage of making it easier to add row and column totals and to analyse and cross-reference entries, but spreadsheets have the disadvantage from an audit perspective that entries can easily be altered or deleted without a record of the alteration. A proper data-base accounting system would be better and should be considered. In the meantime it is important to carry out regular reconciliations of the Receipts and Payments spreadsheets to the bank statements to ensure that the spreadsheets are correct.

7. Bank account reconciliations

The Receipts and Payments spreadsheets that I have been given were, subject to a few minor corrections, complete and correct and have been reconciled to the end-of-year bank statements. Clause 7 of the Council's Financial Regulations says that bank statement reconciliations will be prepared on a quarterly basis but it appears that this has not been done during the year and I recommend that quarterly reconciliations are re-introduced.

8. Purposes of bank accounts

The Council holds two bank accounts. At its meeting in September 2019 the Council resolved that the Treasurers account should be used as an operational account and the Business account should hold the Car Park Maintenance Fund as a ring-fenced sum. This decision has not yet been fully implemented in that the Business account is still being used for operational cash receipts.

9. Risk assessments (internal control objective C)

The Council's Risk Assessment policy lists many risk areas and states what can be done to avoid or reduce the risks. There is a separate Beach Risk Assessment policy. These policies appear to cover the relevant risks but I have not seen evidence that the identified risks have been checked, and it appears that some of the mitigation procedures contained in the assessment policies have not been implemented.

Clause 8 of the Council's Financial Regulations says the Council should appoint a "Risk Assessment" Councillor to advise the Council at all times on matters of risk particularly when financial/insurance implications are of concern. I recommend that the Councillor should report to the Council at least once a year on the perceived risks and what is being done to mitigate them.

10. Insurance

I noted the following:

- (a) The insurance policy refers to the toilet block in Quay Lane, Instow. As far as I am aware the Parish Council has no responsibility for the toilet block in Quay Lane, which is on privately owned land. It is the toilet block in the car park on Marine Parade that should be insured. The address needs to be corrected.
- (b) The policy includes business interruption insurance to a limit of £20,000. The Council's largest source of income is the car park, which produces revenue of around £37,000 p.a. The Council's income this year is likely to be seriously reduced by the travel restrictions resulting from the coronavirus pandemic, which might potentially justify a claim on the policy. The broker should be asked for advice on this issue. I suggest that the business interruption claim limit should be increased in future years.
- (c) The asset cover limit for the car park is also £20,000. If the car park became unusable, for instance because the drains under the car park collapsed, this might also give rise to a claim, and I recommend that the cover limit be reviewed.
- (d) The Chairman's chain of office is uninsured. It had an original cost of £610.

11. Fixed Asset Register

The Register is essentially complete and up-to-date. It includes the Land Registry Title to the Marine Parade car park but not the Lease from North Devon Council or the associated Grant Agreement, which could usefully be added.

The car park is valued at its insurance value of £20,000. In view of the annual revenue generated by the carpark, this figure understates its economic value, and I recommend that the asset value is reconsidered.

12. Publication of the public's right to review the accounts (internal control objective L)

The requirement to publicise the public's right to review the 2018/19 accounts was not met. This should have been done in July 2019 which is when the former Parish Clerk handed over responsibility to the new Clerk, and it appears that the requirement was overlooked.

13. Crown Estates lease

A Turnover Certificate should be supplied to comply with the terms of the lease.

14. Publication scheme

The Freedom of Information Act 2000 requires every local council to have a publication scheme to make information about the council available to the public. The Parish Council's publication scheme is held on its website, www.instowparish.com. I recommend that all relevant information should be kept for 6 years, past year information being held in the archive section of the website.

The next step in the audit procedure is for the Council to complete and approve Sections 1 and 2 of the AGAR and send them together with the other required documents to the External Auditor no later than 31/08/2020.

By the same date the Council must publish on its website:

- Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited
- Section 1 – Annual Governance Statement, approved and signed
- Section 2 – Accounting Statements, approved and signed

It is recommended as best practice also to publish the Annual Internal Audit Report (AGAR page 3).

Yours sincerely,

Michael Green FCMA
Internal Auditor

APPENDIX

Records examined during the audit

- Bank statements
- Bank mandate (one – others not seen)
- Cheque and paying-in books
- Car park takings book
- Receipts and Payments spreadsheets
- Fixed Asset Register
- Invoice file
- Budget documents
- Precept application
- Advice of VAT specialist
- Application for registration for VAT (but not letter to HMRC dated 13/01/2020)
- Records of Council meetings
- Councillors' declaration of interests
- Standing Orders and Councillors' Code of Conduct
- Council's Policies and Procedures
- Clerk's letter of appointment
- Clerk's expense claims
- Insurance policy
- 2018/19 Annual Governance and Accountability Return
- 2018/19 Internal Audit letter