

**Phil Parkin**  
**accountancy and audit services**

**Reg. office: 51 Martin Close, Aughton, Sheffield S26 3RJ**

**Tel: 07983 352 470**

Councillor S Clough  
Killamarsh Parish Council  
Stanley Street,  
Killamarsh  
Derbyshire  
S21 1EL

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Dear Councillor Clough,

**Killamarsh Parish Council - Audit of Accounts 2020/21 – Interim Report**

I have been asked to undertake the internal audit of Killamarsh Parish Council for 2020/21. My work was based on a detailed schedule of Internal Audit testing, and the letter of engagement.

**Introduction**

The Parish Council appointed me as Internal Auditor for 2020/21 on 22 February 2021, after seeking bids from four other providers.

A review of the Council's Financial Arrangements by North East Derbyshire District Council (NEDDC) was reported in March 2020; additional reviews were made of its Financial Framework (RoTFF) and Governance Health Check Audit (GHCA) in early 2021.

These reviews highlight serious weaknesses in the Council's arrangements, and stress the need for urgent corrective action, which I understand has now commenced.

There is clear evidence that, on number of financial matters, the standards of financial management fell well short of acceptable standards.

I will not repeat the detailed findings of these reviews, but, rather, I will refer to them as part of my assessment, which is normal practice.

## **Budgets and budgetary control**

A budget was prepared in support of the precept of £496,305 set by the Council on 10 January 2020. Both expenditure and income were set at £904,620 and a contingency reserve was noted as £28,437 (other reserves were earmarked totalling £35,700). I have seen no evidence that the level of reserves (which were low at the time) was subject to discussion or that professional advice was given on appropriate levels,. However, a three year forecast was made and there was a plan to increase the reserves.

A robust approach was taken to setting the 2021/22 budget, and reserves have been set within the levels required under the new income level without the Sports Centre.

The RoTFF details many failings and concludes that there are weaknesses “from the preparation of the budget to monitoring stages including... performance monitoring reports provided to council and committees”.

NEDDC, in early 2020, reported that FRs were not being adhered to with regard to the raising of purchase orders. I have confirmed that this was still the case during 2020/21. Encouragingly, a new purchase order template has been drafted and now purchase orders are in place.

Whilst some budget reports were considered by the Council throughout the year, these were inconsistent – some were generated from the Omega system, others were a more simplified version. Financial Regulation 4.8 requires that: “*These statements are to be prepared at least at the end of each financial quarter and shall show explanations of material variances.*”

There was no obvious pattern, with months 3 (June), 5 (August), 7 (October) and 8 (November) being reported up to February 2021. There were various comments/notes on the reports, but no formal explanation of material variances.

Therefore, whilst some efforts were made in this regard, taken together with the comments in the RoTFF, I conclude that better arrangements are required.

***I make no further recommendations to those already contained in the RoTFF, the NEDDC and the GHCA reports. I am unable to make a positive conclusions in these areas.***

## **Overall Financial Position**

The Council has planned to deal with its difficult financial position by agreeing a transfer of the operation of its leisure facilities to NEDDC from 1 May 2021, via a Subsidy Reduction Scheme. This arrangement is intended to address the unsustainable cost of running the leisure centre. A subsidy to NEDDC has been included in the Council's budget, which decreases over three years, resulting in a significant reduction in the precept over that time by around £100,000 a year.

This three year plan is part of the 2021/22 budget and represents an improvement in financial planning and is in line with the Council's FRs.

## **Income**

A major item of income is the Council's precept from NEDDC which is received in two instalments. I was able to confirm the correct amount was credited to the Council's bank account in April and September 2020.

It is good practice for all receipts to be banked, and not used for other purposes. However, at times, receipts have been used to fund petty cash top ups and replaced by a cheque. I understand that his practice has now ceased.

I reviewed receipts for November 2020 and confirmed that amounts recorded as receipts had all been banked.

The Council operates a comprehensive cash / till receipting system (the EZ facility). I note that the NEDDC report says that "adequate cash collection controls are in place". I reviewed in detail the cash receipting documentation for the week 23 October to 4 November 2020. I confirmed that all receipts and card payments had been credited to the bank account. However, the banking/receipts summary had not been signed and checked as provided for on the document.

***I recommend that the weekly summaries of banking/receipts are signed and checked.***

For regular users of the Council's facilities, there is no process to raise invoices; instead, the Council has informal arrangements to ensure that sums due are collected.

***I recommend that invoices are raised for users of the Council's facilities, as is good practice.***

Government Job Retention Grant, based on 80% of payments to furloughed staff, was received throughout the year. I reviewed a sample and confirmed the correct amount was received from April 2020 to December 2020. I reviewed in detail the November 2020 claim for £6,215.41 and found it to be correct.

I reviewed the Council's allotments register, for Station Road (22 plots) and Belk Lane (20 plots). The charge per plot for 2020/21 was £10, and payment was noted on the register, totalling £130 for Station Road (out of £220) and £110 for Belk Lane (out of £200).

I understand that the accounts show just £70 unpaid – considerably less than the £90 for each site outstanding on the register. I was unable to verify those plot holders who were recorded as paying, and some plot holders had paid but were not on the register.

The Council recognises that it needs to overhaul its allotment accounting system, and is in the process of doing so.

***I recommend that the revised system facilitates a sound audit trail enabling confirmation that amounts due are paid.***

Whilst there are some areas in need of improvement, I conclude that, for the most part, expected income was received.

## **Petty Cash**

I reviewed the “office” petty cash payments for May - July 2020. A detailed schedule existed with Vat identified to be reclaimed. Unfortunately, there were no receipts to support the small number of payments, totalling £140.14.

The Council no longer uses this petty cash, and the balance of £262.74 was paid into the bank on 18 December 2020, though I was not able to verify that this was the last recorded balance and therefore the correct amount to be paid in. I confirmed that two bar floats of £200 and £800 were also banked on that date.

***I am therefore unable to confirm that “Petty cash payments were properly supported by receipts”***

Separately, the safe contained another ‘bar float’ of £500, an emergency float #1 of £100 and an emergency float #2 of £400.

***I recommend that the various floats be rationalised and banked if not needed.***

## **Payroll**

I reviewed the payroll for January 2021, containing 15 paid members of staff. Contracts of Employment existed for 10, though one lacked the signature of the Clerk.

The pay scales recorded in each contract have been superseded by changes to national pay scales, and consequently, I was unable to confirm that payments agreed to those authorised by the Council.

I was able to confirm that the scale points detailed in July 2020 (and passed to NEDDC for the payroll) had been correctly used. However, the hours for some staff differed from the contracts of employment.

I confirmed the payroll deductions and agreed the payment to on 26 January to NEDDC through the Council's bank.

***I am therefore unable to confirm that "Salaries to employees were paid in accordance with this authority's approval"***

***I recommend that contracts of employment be updated and / or prepared (where absent) to clearly record the appropriate pay scales and hours of work, which in turn should be confirmed by the Council.***

## **Payments**

It is a basic principle that all payments should be supported by an invoice or similar documentation. My review of payments in April and December 2020 highlighted a number of missing invoices. Most, though not all of these were subsequently provided.

One invoice from Stepping out with Michelle was for £372.50, but a further £52.50 had been added before payment.

In most cases, Vat had been accounted for correctly (see minor error noted in Vat section below).

The NEDDC report concluded that, whilst processes for paying invoices were inefficient, controls were in place. I would add to this that frequently, the sections on invoices for "RFO paid", "AO confirm" and "Cllr sig" were blank, suggesting that set procedures were not being followed.

I have seen evidence of some goods and services being obtained with appropriate quotations. However the RoTFF highlighted the absence of a contracts register, which would help to demonstrate how Financial Regulations and Standing Orders are adhered to.

*I recommend that more comprehensive evidence is maintained in support of payments made; also where adjustments are required to invoices, that an additional or revised invoice be obtained from the supplier.*

## **Bank Reconciliations**

Bank reconciliations are prepared promptly each month, and presented to the Council. I reviewed the September and December 2020 reconciliation and agreed the figures to bank statements.

## **Risk Assessment**

A financial risk assessment was adopted on 25 November 2019, which the RoTFF assessed as inadequate in many ways. More recently, a comprehensive and much improved Risk Assessment Policy and Corporate Risk Register with meaningful risks levels and risk appetite has been produced and adopted by the Council. The new risk register was adopted by full council at the meeting held on the 22nd February 2021 following a recommendation from the Finance committee meeting held on the 12th February 2021. This is a significant improvement, and is subject to an annual review.

## **VAT**

Quarterly VAT returns are submitted and I was able to review the first three returns up to 31 December 2020 and verified the claims to receipts in the Council's bank.

An amount of £107.50 was reclaimed relating to an invoice from Derbyshire County Council; this should have been £47.50 and an amendment has now been made.

## **Investment strategy**

Statutory Guidance issued under Section 15(1)(a) of the Local Government Act 2003 and effective from April 2018, requires that councils investing over

£100,000 should have an investment strategy; where councils have more than £10,000, it is good practice to adopt such a strategy. The Council currently has no such strategy.

***I therefore recommend that the Council develops a strategy in line with the statutory requirements.***

## **Policies and procedures**

In spite of the shortcomings identified, there have clearly been efforts to strengthen the Council's arrangements. The Anti Fraud and Corruption Policy is comprehensive, and an example of good practice. Similarly, the Council has adopted a policy on the review of the effectiveness of Internal Audit, which I have rarely seen, even though it is recommended by the Practitioners' Guide.

There are also arrangements to assess the effectiveness of internal controls, involving a small working group of councillors.

## **Website**

The Council publishes agendas and minutes on its website which in principle, is helpful to anyone seeking information about the Council. However, I found it to have gaps in the minutes that were available, and in some cases the links from meetings to minutes were not operating. Specifically, Council meeting minutes for 7, 15 and 28 September 2020 and 26 October 2020 were only located by reference to later agendas approving the respective minutes.

At the time of my audit (March 2021) the website did not contain payments over £500, which were only listed up to March 2020, with no details for the year 2020/21.

I commend the listing of the budget compared to actual on the website, though the June to September reports were absent. I also noted that the reports were headed as, for example "for the month of February", whilst the reports appeared to be a cumulative position ***to the end of February***.

***I recommend that the missing minutes / links be added / updated to the website, and that a review be made to provide improve the availability of key public records, including payments over £500.***

## **Public rights and publication of AGAR**

The Council initially did not advertise the public rights to inspect its accounts and raise objections. However, these rights were belatedly advertised on its website, for the requisite period. The 2019/20 AGAR was published on the Council's website, but unfortunately it was under the general documents, and not linked to the finance section where all previous AGARs can be accessed.

The External Audit Certificate and Conclusion of Audit Notice were published on the Council's website, but not by the due date of 30 November 2020. However, it was published at the very earliest opportunity by the Locum Clerk, immediately upon her commencement, on 8 December 2020.

***I recommend that the Council formally resolves the date for public rights and that its minutes record this decision, and that it ensures that the AGAR is linked to the finance section of the website.***

It is worth noting that due to various lockdowns and the Operations Manager leaving, not all sports information was immediately to hand. The Council had to work under difficult circumstances e.g. changes to online banking, the pandemic, new ways of working due to pandemic, major changes to staff and Locum Clerks. Although these cannot be accepted as excuses they are reasons that should be noted as they were contributing factors.

## ***Conclusion***

The Council has clearly struggled to meet acceptable standards in some areas, and specifically has not complied with its own Financial Regulations in certain cases. This inevitably results in some negative conclusions in the Annual Internal Audit Report within the AGAR.

However, there has been a thorough assessment of the Council's position which should enable it to make significant improvements. Indeed some of these are already apparent, namely by adopting robust policies on Anti Fraud and Corruption, Internal Audit and a demonstrably improved Risk Assessment.

There now needs to be a period of consolidation in which these and other recommendations are implemented, in order for the Council to achieve an acceptable level of governance.



My letter of engagement says **"The fee is based on the assumption that the Parish Council's records and accounts are accurate, up to date and reliable. Should any further work be required, due to shortcomings in records or accounts, then additional fees may be chargeable, but only after consultation with the Town Council."**

The shortcomings referred to above in this report indicate that the administration and governance fall short of what would be expected in many areas. The audit has consequently consumed more time than should be the case. I will endeavour to keep any additional charge as low as possible, and will review the position after the final stage of the audit.

Finally, I would like to place on record my thanks to the Council and its officers for their assistance and courtesy during my audit.

Yours sincerely

*P R Parkin*

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