

Local Council Audits - Issues Arising

Audit for the year ended 31 March 2004

Hesketh-With-Becconsall Parish Council

The following issues have resulted in the annual return being qualified. They indicate a weakness in the Council's procedures and they require the Council to take immediate action.

Internal Control System

We note that the Council did not maintain an adequate system of internal control as stipulated by Regulation 4 of the Accounts and Audit Regulations 2003.

We have noted from the internal auditor's report, the clerk's report and our own investigation, that a number of weaknesses exist in the internal controls of the Council. Those weaknesses include procedural defects, failure to follow laws and regulations and weaknesses in record keeping.

We have noted the Council's intention to improve internal controls and procedures. We request under Section 11 of the Audit Commission Act 1998 that the Council considers all the points covered in this report and in accordance with Section 12(a) of the Act, reports their discussions and proposed action plan to us.

Risk Assessment

Regulation 4 of the Audit and Accounts Regulations 2003 states that 'The relevant body shall be responsible for ensuring that the financial management of the body is adequate and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes risk management arrangements'.

The Council is subject to a number of risks, only some of which can be covered by obtaining adequate insurance. Other risks may also be present, such as:

- Fraud and corruption
- Outsourcing of services
- Activities being outside legal powers
- Electors rights not being followed
- Improper expenditure under S137

It is recommended that the Council, at least annually, carries out a complete risk assessment. The Council should decide which risks it faces and how it is going to reduce the impact of these risks on the Council's ability to provide its services. This risk assessment should be agreed and minuted as evidence of the review being undertaken. An example of the risks and how they can be handled is included in "a practitioner's guide" published by NALC & SLCC.

The above list is not exhaustive and the Council should contact their local NALC representative for more guidance if they have any queries in respect to risk assessments.

Payment to Lancashire County Council not authorised

During the year a payment of £50,000 was made to Lancashire County Council in respect of the Tarleton High School Indoor Sports Hall. Whilst we are satisfied that the Council has the legal power to make the payment, it was made without receiving full Council approval. All payments, unless otherwise stated in the Financial Regulations of the Council, must be approved by the Council before the payment is made.

We have decided not to report further on this matter as the payment obtained subsequent Council approval. The Council decided not to recover the money paid over to the County Council, albeit that this payment was made illegally by the former clerk and former Chairman.

The Council must ensure that all future payments are correctly authorised before they are made.

Completeness of income

We have noted that inadequate records have been maintained during the year. As a consequence the Council have been unable to provide adequate documentation to prove that all income due to the Council was received. We are therefore unable to conclude that the income received during the year is complete and correctly recorded on the Annual Return.

The Council must ensure that full accounting records are maintained to ensure that all income receivable is recorded. The Council must also ensure that all expenditure invoices are retained to ensure expenditure is valid, legal and fully approved by the Council.

The following issues have been raised to assist the Council in improving their internal controls or working practices. The Council is recommended to consider these but is under no statutory obligation to act upon them.

Asset Register

An asset register should be in existence to help ensure that the recorded value of assets and investments is, as far as possible, accurate and to ensure the Council is safeguarding their assets. The accuracy of such a register should be verified by the Internal Auditor in their annual review of the internal controls of the Council.

Guidance on the format of the register can be obtained in 'A Practitioners Guide' published by NALC & SLCC.

We request under Section 11 of the Audit Commission Act 1998 ("the Act"), that the following points are considered by the Council. A meeting should be held in accordance with Section 12 of the Act and in accordance with Section 12(2a) of the Act, the Council should notify us as the auditors of the discussions and proposed action plan to deal with the issues raised.

VAT claimed less than once a year

During our audit we noted that the Council had submitted a VAT return to H M Revenue & Customs in respect of expenditure over a period of three years. The Council should submit regular (monthly, quarterly or annual) VAT returns to comply with VAT regulations. The Council now has a two year statutory limit to reclaim VAT and so as a minimum VAT should be reclaimed every two years.

To ensure this situation does not arise again the Council is recommended to produce a VAT internal control procedure.

Budgetary Process

The preparation of an annual budget is one of the key tasks to be taken by a local council, irrespective of its size. The budget has three main purposes:

- it results in the council setting the precept for the year;
- depending on the council's Financial Regulations, it may give the clerk and other officers overall authority to spend money 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.

The important statutory stage of the budget process is confirming the precept that is to be raised on the district council or unitary authority for the area. The law requires that precepts be issued a month before the new financial year starts, i.e., by 1 March.

At the same time that the budget is set, members should also approve any delegation of responsibility for spending amounts set out in the budget. For example, the budget might include amounts for paying a grant to the local youth club: authorisation might then be given to the responsible financial officer to pay the grant without having to make further reference to the council.

There is no statutory requirement to publish the budget, but councils may put a copy on the notice board once it has been approved.

Having determined the planned levels of spending, anticipated income and the balances needed to be carried forward for contingencies and future spending plans, the budget needs to be approved. Much of the work preceding this stage may be delegated to the responsible financial officer, but the council must approve the finalised budget.

The importance of the budget should not be underestimated, and it is essential that council members understand how it is put together and how it should be used in the running of the council. The regular reporting of expenditure and variances from budget is an essential part of the proper control of public money.

During our audit we reviewed the budgeting process of the Council and have noted that although a precept was set by the due date the Council did not undertake adequate budget monitoring during the financial year. It is recommended that the Council regularly reviews its actual income and expenditure against its budgeted income and expenditure. This is an essential internal control and a key aspect of the financial management of the Council. The amount of budget monitoring undertaken during the year will depend upon the size of the Council and the complexity of its finances but we would recommend that the Council monitors its budget at least quarterly or more frequently if the Council chooses to do so.

Further advice on budgets can be found in 'A Practitioners Guide' published by NALC and SLCC.

Payment Authorisation

During our audit it was noted that not all payments were authorised by the Council.

It is essential that the Council follows its Financial Regulations, which should include a requirement for all expenditure to be authorised by the Council, or a Committee delegated with the powers to do so, prior to the expenditure being incurred.

The Council should also ensure that, where necessary in accordance with the Financial Regulations of the Council, competitive tenders are sought.

The Council must also ensure that all payments are only made when adequate evidence, such as invoices, are supplied and that they are retained to evidence the Council's expenditure.

Failure to follow the Council's Financial Regulations and to incur expenditure without following proper regulatory guidelines could result in the councillors and/or clerk being subject to investigation and possibly legal proceedings. We would therefore recommend that the Council seeks the advice of NALC and its Internal Auditor to ensure all expenditure made is authorised and within its statutory legal powers.

Minuting approval of Annual Return

It is essential that the Council's minutes are fully maintained as they are the lawful record of the events of the Council's meetings. The minutes supplied did not specifically minute the council's approval of the Statement of Accounts and Statement of Assurance and of the yes/no answers which were given. It is recommended that the Council in future years states their specific answers to the Statement of Assurance and their acceptance of the Statement of Accounts and minutes these appropriately.

Fidelity Guarantee

A local Council, under S114 Local Government Act 1972, must take security as it considers sufficient in the case of any of its officers likely to handle its money.

It is advisable to have adequate Fidelity Guarantee Insurance cover in order to protect the council against potential loss. We strongly recommend, therefore, that the Council considers the level of insurance cover it has and sets this to a level so that it is adequate for this purpose. The Council should review this at least annually as the Council's circumstances may change throughout the year.

It is recommended that the amount is sufficient to cover the maximum amount of money the council holds at any one time during the year. A Council does not have to have Fidelity Guarantee Insurance if it considers that no security is 'sufficient' but there must be objective grounds for such a conclusion. Smaller Councils may decide therefore that the cost of this insurance is disproportionate to the risk involved. If this is so the Council should minute this decision annually.

Insurance

The Council should ensure its assets are insured at a level equal to at least their replacement value. We note that the Council is under insured in respect of certain assets. We recommend that the Council considers the value of cover and increases it accordingly, if appropriate.

Bank Reconciliations

It has been noted that bank reconciliations are not performed and reviewed on a regular basis. We recommend that this is carried out on a monthly basis as a control over the finances of the Council

Loss to the Council of interest paid on loan

During the year the Council borrowed £100,000, £50,000 was paid towards Tarleton High School Indoor Sports Hall and £50,000 towards outdoor sporting facilities within Hesketh Bank. It was subsequently discovered that no land was available for the outdoor facilities and the £50,000 earmarked towards this project was repaid to the PWLB. As a consequence the Council paid interest of approximately £700 on the loan to the PWLB without deriving any benefit from this cost.

We have decided not to report further on this matter as we do not consider it in the public interest to investigate further at additional cost to the Council the level of loss involved. As auditors we no longer have the power to surcharge individuals for losses to the Council and so no benefit could be accrued to the current Council of taking any further action in respect to this matter. The Council should ensure in future that loans are only obtained when their usefulness has been assessed and the loan is required and not beforehand.

PWLB loan obtained without full Council approval

During the year a 25 year loan for £100,000 was obtained by the Council. The decision to obtain the loan was made without the proposal appearing as an item on the agenda. All business that is proposed to be transacted at a meeting must appear on the agenda (Local Government Act 1972, Sch 12, Para 10). By not appending the proposal to the minutes any decision made would be in breach of the Act and therefore illegal.

The minutes of the meeting of the 10 February 2003 passed the resolutions subject to further negotiation. Whilst not all of the Councillors were present there was a quorum at the meeting to make the decision. The Loan Application for Borrowing Approval was completed stating that full Council approval had been obtained at the meeting on 10 February 2003. The loan was therefore obtained illegally as the Council had only approved the resolution subject to negotiation.

The resolution of a non-agenda item is considered a procedural defect which the Council must ensure does not happen again. However, we have received no objections from electors or Councillors opposing the resolution. Therefore we are satisfied that the decision to obtain the loan was made without objection and would have been carried, if the procedures had been properly adhered to.

The loan application was signed by the former Chairman and the former clerk. As neither party are members or employees of the current Council, we have concluded that it would not be in the public interest to report further on this matter.

Standards Board Investigation

The former Chairman was subject to a Standards Board investigation following actions taken without full consultation and approval of the Council. The Standards Board found that cheques totalling more than £3,000 were signed without Council approval. The Standards Board found that the former Chairman authorised the transfer of a loan without specific approval and paid for his own attendance at a civic reception from Council funds.

The Standards Board found that the former Chairman had brought his office into disrepute. However they found that no further action was necessary as the former Chairman was no longer part of the Council.

We recommend that the Council ensure that safeguards are put in place to prevent actions being taken by individuals. We do not consider it to be in the public interest to report further on this matter as the former Chairman is no longer a member of the Council.

No other matters came to our attention.