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Councillor Christopher Tennant
Chair of Earby Town Council
The Parish Rooms
Victoria Road
Earby
BB18 6QS

19 June 2017

Dear Councillor Tennant,

**To the Chair and Members of Earby Town Council,
Internal Audit of Accounts for the Financial Year ending 31 March 2017**

During the year the previous clerk suffered illness over several months which resulted in his resignation just prior to the financial year end. As a result of this illness tasks were not completed to the usual standard expected, and this left the Council with additional work to bring the accounts and associated duties of the clerk up to date in a very short space of time. The Chair and Deputy Chair have worked above and beyond the call of duty to get the affairs of the Council up to date, and their work is to be commended. It is against this background that I have undertaken my audit. I have concluded the annual audit of the Council's financial accounts and wish to bring two significant issues to your attention. The first is that payments have been made to staff which have not been authorised by council members, and these payments have not been notified to HMRC. Secondly the Governance framework has not been effective, with the Council failing to assess the risks it faces. There is a need to identify, assess and record these risks annually, together with implementing measures to mitigate and manage these risks. The results of my audit are detailed below.

Annual Return

I have carried out the final audit of the Council's financial accounts for the year 2016-17 and I am pleased to inform you that I have signed the internal audit section of the Annual Return for Local Councils as required.

Bookkeeping

The Council's cash book and bank accounts were checked. All cash book entries were agreed to bank statements and the year bank reconciliation was agreed. VAT was appropriately identified in the accounts and the balance of VAT due will be reclaimed during 2017-18. The accounts for the Annual Return were compiled on the basis of receipts and payments, which is consistent with the previous year.

Standing Orders, Financial Regulations and Payment Controls

Whilst Standing Orders and Financial Regulations are in place and have been adopted by the Council, they have not been reviewed during the last two financial years. Standing Orders and Financial Regulations should be reviewed regularly to ensure that they are appropriate, up to date and are being followed by the Council.

Council minutes have been reviewed, all minutes are appropriately numbered and have been signed. There are examples of governance failings in the approval of expenditure. There are 14 payments which have been made for which there has been no committee approval, four instances of approval being given where payment has not subsequently been made and seven instances where there are differences between the amount of the approval and amount of the payment. As a result of continued differences between payments made and payments due there are currently disputes on going with two organisations over the value of unpaid accounts.

High value invoices (over £10,000) were separately tested. Playground equipment was transferred to the Council by Pendle BC and maintenance of this equipment is undertaken by Pendle Borough Council on a contract that had been already let. Earby TC will need to retender the maintenance contract at the end of the existing contract.

Recommended Action:

Ensure that Standing Orders and Financial Regulations are reviewed during 2017-18.

The Council needs to improve its governance arrangements with council members periodically testing payments to invoices to ensure that authorisations are for the correct amount.

Ensure that the playground maintenance contract is retendered for at the end of the existing contract.

Risk Management Arrangements

The Council's risk assessment and the effectiveness of internal controls have not been reviewed during the year. Under the Governance and Accountability regulations for smaller authorities the Council is required to undertake an annual assessment of the risks facing the Council. This should cover the identification, assessment and recording of risks facing the Council and steps taken to address them by ensuring that appropriate measures are in place to mitigate and manage risk.

An insurance policy is in place and covers all the main insurable risks of public liability, employer's liability and fidelity guarantee, and values are consistent with the risks covered.

Recommended Action:

The Council should undertake a detailed review of the risks facing the Council and ensure that these risks are identified, assessed and recorded, and that these risks are then addressed by implementing appropriate measures to mitigate and manage risk during 2017-18.

Budgetary Controls and Financial Health

The annual precept request was underpinned by an annual budget and updates of progress against the budget were reported to the Council during the year. Financial Health is on the low side of satisfactory with a balance carried forward of £35,000 representing 14 weeks of expenditure. We normally recommend that balances represent about half a year's annual expenditure (ie about 26 weeks of expenditure) therefore the Council will need to monitor balances to ensure that the level of balances remains satisfactory.

Income Controls

VAT and precept income has been separately tested and agreed to supporting documentation and the bank statement. Due to the clerk's illness, allotment invoices have not been sent out during 2016-17, and double rent will now have to be billed during 2017-18. Other forms of income have been tested by means of analytical review, with sources consistent with the previous year and variances satisfactorily explained.

Payroll Controls

Salary payments have been tested and compared to contractual terms and amounts notified to HMRC. Salary payments were made by standing order. In May 2016 the standing order was increased to reflect the annual pay award, however, in that month, the old standing order (totalling £884 to three staff members) was also paid. Council members were unaware of this double payment

to staff, and there is no evidence that staff members have repaid this overpayment. This overpayment has not been authorised by Council members.

Testing of expenditure in the year also identified a number of payments which appear to be overtime payments (rather than reimbursement of expenditure incurred by staff members on behalf of the Council). These payments, totalling £1610 (details of which have been separately notified to the Chairman), need to be investigated by the Council. If they are overtime payments these will need to be notified to HMRC to ensure that PAYE and NI, if appropriate, are correctly deducted and paid over.

Recommended Action:

The double payment of the payroll standing order in May 2016 needs to be followed up with the bank to determine responsibility for the double payment. If responsibility lies with the Bank, arrangements should be agreed for the Bank to make good the Council's loss; if responsibility lies with the Council, staff should be approached with a view to agreeing repayment terms for the overpayment.

Payments made directly to staff should be investigated and, if overtime payments, the HMRC and the Council's payroll operator should be notified immediately of the situation. Council staff should also be notified of the situation and of the proposed action to be taken.

Asset Controls

All material assets owned by the Council are maintained in an asset register. The asset register was agreed to the financial statements and significant assets were agreed to insurance schedules for appropriate insurance cover.

General

My thanks are extended to the Chair and Deputy Chair, Councillor Tennant and Councillor Cocker, for their help and assistance with my audit.

Yours sincerely,
Ken Stephenson
Partner

Yorkshire Internal Audit Services