



REPORT TO OAKHAM TOWN COUNCIL

10th JANUARY 2023

Report to the members of Oakham Town Council

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Following request to attend the Council offices by Cllr Sally-Anne Wadsworth (Chairman) on 4th January 2023 to review financial systems in use at the Council and prepare a report with particular attention to any risks and weaknesses in procedures.

INTRODUCTION

DCK Accounting Solutions Limited were engaged by the council to report on financial operations and whether these were in accordance with proper practices and whether the council's financial regulations and standing orders were being adhered to.

The objective of financial regulations and standing orders is to ensure inter alia that the council has in place "robust and effective systems of control over expenditure". This requirement stems from a binding undertaking given to enable section 150 (1) of the Local Government Act 1972 (the two signature rule) to be repealed and thereby cease to be a statutory requirement. Any significant failure to follow financial regulations is likely to constitute a breach of this undertaking and is therefore extremely serious.

BACKGROUND

The Council uses the Rialtas 'Omega' accounting package. This program is designed for Town and Parish councils and is one of the better systems in use by councils. It is considered 'safe' as alterations and amendments are not possible within the software and a full audit trail is provided along with a sound budget program and good reporting facilities for councils with emphasis on a number of different options available. The package includes the option to use purchase and sales ledgers, but only the cash book is in use at the moment. The RFO may like to consider using the purchase ledger facility before too long. The amount of invoices being processed suggests that it is desirable rather than necessary at this time.

The council is not registered for VAT but VAT on expenditure is claimed through a special arrangement (a Section 33 claim). The VAT Act 1994 allows Councils that received no income that could be subject to VAT to reclaim refunds under this special provision without having to register for VAT.

The Clerk is also the RFO and carries out all the financial work and makes the data entries on the Omega software.

We would perceive this as a weakness and believe the council should review the risks of only one person being able to use the software.

The council receives very little income of any kind and the only cash used is an occasional withdrawal for petty cash use. We noted that it is possible that there may be unclaimed VAT on part of the £80.00 worth of Petty Cash payments already incurred and we have advised the clerk to check that all VAT is included in the next VAT claim.

Reimbursement is made by the council on an ad hoc round sum basis. **We suggest that the exact amount of petty cash expenditure only is re-imbursed on production of receipts and vouchers for inspection.**

INTERNAL CONTROL

A proper system of Internal Control is designed to ensure that no one individual is responsible for the whole chain of authorisation, recording and payment/receipt of any one transaction. An essential element is therefore that at least two (and preferably more) are involved in the transaction from order through recording in the accounting records and (eventually) payment of the debt incurred or banking of amounts due and receivable. In a small council, with limited staff members, this inevitably requires the involvement of councillors in the chain of responsibility, as quite clearly set out in Financial Regulations

FINANCIAL REGULATIONS

Financial Regulation 6.3 and 6.4 require (between them) that:
All payments shall be signed by two members

Financial Regulation 6.14 requires that:

Where internet banking arrangements are made with any bank, the Clerk/RFO shall be appointed as the Service Administrator. The bank mandate approved by the Council shall identify a number of Councillors who will be authorised to approve transactions on those accounts.

We note the following as specified within the financial regulations;

1.14 The Council must

Determine and keep under regular review the bank mandate for all Council bank accounts.

It would appear that any review carried out by the Council has not complied with financial regulation 6.3 (see below)

2.2 Annually, a member other than the Chairman or a cheque signatory shall be appointed to verify bank reconciliations.

We were unable to verify that this is being carried out.

4.8 The RFO shall provide the Council with a statement of receipts and payments under each head of budgets.

On examining the software set up, we would suggest that this isn't possible as income is not allocated under a budget head. We would suggest that either the Financial Regulations are updated or the budget set up is changed to enable such reporting.

5.1 The council's banking arrangements, including the bank mandate, shall be made by the RFO and approved by the Council. They shall be reviewed for safety and efficiency.

In as much as we have not seen a copy of the bank mandate, we are unable to confirm whether this in accordance with the above extract.

In any event, regulation 6.4 makes it clear that authorisation of payments is by two members. Our examination of the records during our visit indicate that such authorisation has been by the clerk/RFO and thus is in direct contravention to the financial regulations.

5.2 requires that "the RFO shall prepare a schedule of payment requiring authorisation, forming part of the agenda for the meeting". To be of any effect, this authorisation must, of necessity, precede actual payment. We note, however, that such schedules are being approved retrospectively and are thus, meaningless.

ACCOUNTING RECORDS

We took the opportunity to check the accounting records on the Omega Cash Book software. The records were up to date and our examination of the purchase invoices indicated that they are checked and signed off by Councillors. We made a few amendments to the VAT records, but nothing that materially affects the VAT claims and arranged to send the clerk a comprehensive guide to VAT. We were aware that the clerk is not fully aware of the potential of the Omega software and the various reports that are available and suggested he contacts us if there is any additional information that councillors would like to review as it is possible alternative reports could be provided. **Some further training on the Omega system is recommended in order to gain full benefit from the reports available and to obtain a greater understanding of how to fault find and correct any anomalies.**

INTERNAL AUDIT –

The primary responsibility of the Internal Auditor is to critically review, comment on and (where appropriate) recommend improvement in the council's governance, procedures and systems. It will be apparent from the foregoing observations that in the most recent Internal Audit report, there is no mention of the various issues we have highlighted. Should these issues have been brought to the attention of the council in earlier reports we would have hoped that he/she would followed up as a matter of urgency. The council, in its Annual Governance Statement as part of the AGAR certifies that they "have maintained an effective system of Internal Audit". This is patently not the case, and we would urge a stringent review of the areas of work to be undertaken by the Internal Auditor before the 2022/23 Annual Governance Statement is completed and signed.

Councillors may like to note that there is guidance within Section 4 of the Practitioners Guide concerning required competences when appointing an Internal Auditor.

Our main area of concern is to bring to the Council's attention that current banking arrangements are such that payments are being made from the council's account on the sole signatory of the current Clerk. **This is in direct contravention of the Council's own Financial Regulations and constitutes a lack of "robust and effective system of control over expenditure" and should be changed as a matter of urgency. We believe this may mean it is necessary for the Council to change bankers as it may not be possible to set up a dual signature electronic process with HSBC.**

As RFO, the clerk, we suggest, should be making arrangements to ensure the council follows the Financial Regulations and updates arrangements for making safe and legal payments with all haste.

Melodie A Beevers

DCK Accounting Solutions Ltd

10th January 2023