



Audit of Financial Arrangements

Killamarsh Parish Council

Introduction and Scope

- 1.1 The Council received a request on 22th July 2019, from the Chair of Killamarsh Parish Council to undertake a review of their financial arrangements and leisure provision.
- 1.2 A scope has been agreed with the Chair of the Parish Council which covers two distinct work streams:
 1. A review of financial arrangements
 2. A review of the leisure provision and options for improvement
- 1.3 This report focusses on work stream 1, a review of financial arrangements. Work stream 2 focuses on the leisure function and the potential to reduce the subsidy of the service and is being led by the Strategic Director (People). This is being reported under separate cover.
- 1.4 In 2019/20 the Parish levied a precept of £496,655 which resulted in a Band D council tax of £195.74, the highest in the District. This is largely due to Killamarsh having to meet the running costs of their leisure centre as part of the precept. It is worth noting at this point that the Parish funds their leisure facility wholly from their own precept and also contribute to the wider leisure facilities provided by the District (and therefore included in the district precept).
- 1.5 It has become clear throughout the review that the level of subsidy required to maintain the leisure facility and therefore the burden on the Parish Council to continue to fund this subsidy through the precept is not sustainable long term and needs to be addressed. Cost reduction and income generation as well as potential capital investment opportunities are covered at length in the report provided under work stream 2 as detailed in 1.3 above.
- 1.6 The Parish currently holds reserves of £112,406 which includes a capital reserve of £7,477. Council can approve the use of reserves should there be a risk to service delivery and can also utilise reserves to fund budget shortfalls should they so wish, however good practice regards use of reserves to fund day to day expenditure unless one off as “*last resort*” as the shortfall will still be there the following year and the reserves will be depleted. The level of reserves that the Parish holds are not sufficient to address the subsidy needed to cover the cost of the leisure function so

utilising them to this end would not be a recommended course of action.

- 1.7 To give the impact of subsidising the leisure function on the Parish some context the precept between the leisure centre function and the parish function has been split as follows:

	Precept (£)	Council Tax Band D (£)
Parish function	139,931	54.80
Leisure Centre function	356,724	140.94

- 1.8 The Council tax for the Band D element for the parish function is fairly typical and in line with the majority of similar parishes within the district. There is no direct comparator at parish level within the District to assess the cost to the council tax payer of the Killamarsh Leisure function so the District Council's leisure facilities have been used to provide a benchmark as the table below demonstrates:

	Council Tax Band D (£)
Average for the District Leisure Function	55.01
Killamarsh Leisure function	140.94

Findings

- 2.1 Following a series of meetings with the Chair, Interim Clerk and Finance Officer at Killamarsh Parish Council the following has been identified:

Financial Regulations

- 2.2 There is a requirement for the Parish Council to have adequate and effective arrangements for financial management and sound systems of internal control, financial regulations provide the framework for this. They apply to all members and officers and anyone acting on their behalf.
- 2.3 The review found that the Parish does have Financial Regulations. These were last reviewed in January 2019 so the annual review is now due. However, they are out of date and need to reflect current practice and any change in practice arising from this review.

ACTION – to review Financial Regulations to ensure they are fit for purpose and a true reflection of the Parish's financial arrangements.

Financial Governance

- 2.4 From discussions with the Chair, Interim Clerk and Finance Officer it became apparent that there is a lack of clarity over officer roles and member roles with some operational day to day finance activity being performed by

members. An example of this is signing of cheques which the RFO would normally be responsible for, provided adequate separation of duties can be maintained within the team.

- 2.5 There is also a considerable amount of low level scrutiny and little delegation of detail from Council to the Committees.

ACTION – a review of the constitution would be advised to clarify the roles and responsibilities for the Executive Function (Clerk/RFO)

Financial Management Systems

- 2.6 Currently, the parish engages a firm of accountants to provide a full accounting service. This limits the control and ownership that the finance team have over the financial arrangements. The accountants produce the bank reconciliation, budget monitoring, processing and payment of invoices. Purchase orders aren't raised as a matter of course and invoices for the clerk function are raised manually (Leisure use EZ but there is no interface to the finance system). Many of these matters and the control issues arising are addressed in more detail further on in this report.

- 2.7 Such an approach to financial management means the finance team are reactive in their approach and as a result this presents difficulties surrounding the ownership of the finance function. Many of these finance tasks are routine and would be more effectively performed and managed on site under the management of the RFO.

ACTION – review the current arrangements for finance service provision. Having a fit for purpose financial management system managed and operated in house would provide a more cohesive approach, would increase ownership of the roles within the current team and most importantly would increase internal controls and adherence with financial regulations. Whilst it is recognised that this wouldn't normally be necessary at most parishes, the running of the leisure centre and size of the budget at Killamarsh increases the need for such efficiency and internal control.

Internal Audit Provision

- 2.8 Current provision is with an external provider who spends on average three days a year auditing the financial systems of the Parish. The effectiveness of internal controls is reported to Council. Based on discussions with the Chair, no issues have been identified.

ACTION – based on the findings in this report, internal controls need reviewing. It is a reasonable expectation that the internal audit process should have identified these. Therefore consideration should be given to reviewing the current internal audit provision especially considering the size of the parish's budget.

Purchase Orders

- 2.9 The Financial Regulations require that orders are raised for all goods and services. However, in practice orders are only raised for high value orders and this is a manual process. In addition no terms and conditions are published/communicated to suppliers.

ACTION – not raising purchase orders means Financial Regulations are not being complied with, which needs addressing. In addition terms and conditions should be drafted and communicated to suppliers.

ACTION – if electronic purchase orders were raised through an effective financial management system this would significantly reduce manual intervention and time needed to process invoices which is currently an onerous manual process. It would also significantly increase control of the process.

Payment of Invoices

- 2.10 The current process is labour intensive. The Finance team currently check and code all invoices received then the Clerk/RFO authorises them. Then the external accountants post them onto the financial management system and produce the cheques for members to sign.

ACTION – This process needs review. Whilst adequate controls are in place, the process is not efficient and relies heavily on external support. Finance staff are doing the checks so could process invoices at the same time removing the need for the accountants involvement in this process.

ACTION - with the implementation of online banking (see below) consideration should be given to making payment by BACS, reducing the need for cheques. Electronic payments are faster, cheaper and more secure.

ACTION – Ideally with electronic purchase orders in place (see above) all the current manual controls could not only be replaced but improved upon.

Payroll

- 2.11 Payroll is also hugely labour intensive and requires considerable human intervention which increases the risk of error/fraud. This matter has been discussed with the Chair and Interim Clerk and an arrangement has been made with the District Council to provide an all-inclusive secure automated payroll service from April.

Banking Arrangements

- 2.12 At the time of the review commencing, the Parish banked with the Co-operative Bank. Several years ago all local authorities were advised to review their banking arrangements with the Coop due to poor credit ratings.

- 2.13 Banking was entirely manual with no automated facilities, all payments made by cheque and no online facilities.
- 2.14 The Parish were advised to review their banking with immediate effect and explore online banking. This advice was taken and a change of bank with online facilities is currently being implemented.
- 2.15 Members are to remain signatories for all payments

ACTION – the need for member involvement in making online payments should be reviewed. Provided sufficient separation of duties can be put in place (ie set up is separate to authorisation) then the RFO should be able to authorise payments with member involvement the exception rather than the norm. By paying invoices by BACS and no longer having to make manual payroll payments, transactions would be significantly reduced.

Treasury Management

- 2.16 The Parish currently has no Treasury Management Strategy

ACTION – consideration should be given to drafting a treasury management strategy. It will be essential if future investment in assets is to be considered

Income

- 2.17 There is still a significant amount of cash collected, mainly because of the leisure centre.

ACTION - This in itself isn't a major concern as adequate cash collection controls are in place. However, consideration should be given to looking at more cashless strategies over time as part of this review

- 2.18 All invoices for leisure are raised out of the leisure management system but it was unclear how this interfaced with the finance system and what debt recovery procedures are in place. A parish invoices are raised manually.

ACTION – Interfaces between the leisure system and financial management system should be explored, removing the need for manual intervention and therefore increasing internal control. Debt recovery procedures should be documented and communicated to all staff.

Contracts

- 2.19 No assurance could be ascertained that contracts were available, up to date and adhering to the Financial Regulations

ACTION – contracts need to be located and a contracts register needs to be compiled. All future contracts must comply with the Financial Regulations and demonstrate value for money.

Stock Checks

- 2.20 An independent contractor provides a stock checking service.

ACTION – whilst adequate controls are in place consideration should be given to upskilling staff to perform routine stock takes. This will increase ownership of the task and generate a budget saving.

Insurance

- 2.21 No issues were identified, policies are up to date and correctly displayed.

Budget Monitoring

- 2.22 External accountants provide the budget monitoring whilst the Clerk/RFO sets the budget. Annual budgets are set but no medium term planning takes place. There are clearly budget pressures that need to be tackled particularly in respect of the leisure function, which the separate report covering work stream 2 addresses. It is the responsibility of the RFO to lead this role and provide strong financial leadership when reviewing the budget position.

In examining the 2019/20 budget a scenario was identified where use of capital expenditure would have been more prudent than having generous annual revenue budgets (street furniture) taking some pressure off the budget. Other similar cases may exist and should be reviewed.

ACTION – In addition to the actions identified in the work stream 2 report, the RFO should consider a full line by line review of all budgets to ensure that they are a) fit for purpose and b) categorised correctly being capital and revenue.

ACTION – the annual budget setting process is satisfactory but consideration should be given to three year budgeting. This is a requirement of the Financial Regulations and aids medium term planning.

ACTION – consideration should be given to performing budget monitoring in house. This would increase ownership of the budget within the finance team and allow a more proactive approach to dealing with budget pressures

Fees and Charges review

- 2.23 An annual review is taking place and being approved by Council. This is addressed in the work stream 2 report.