

**Public Interest Report under Schedule 7
Local Audit and Accountability Act 2014**

**In respect of
Glemsford Parish Council
For the years ended
31 March 2009 to 2012**



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Summary

Introduction

BDO LLP was appointed by the Audit Commission as the auditor of Glemsford Parish Council (the "Council"), Suffolk for the audit year ending 31 March 2007 and thereafter. The appointment contract was novated to Public Sector Audit Appointments Limited (PSAA) following the abolition of the Audit Commission on 31 March 2015.

Under the Local Audit and Accountability Act 2014, we have responsibility to consider whether, in the public interest, we should report on any matter that comes to our notice so that it is brought to the attention of the audited body and the public. Schedule 7 of the Local Audit and Accountability Act 2014 sets out our powers to issue a public interest report and the process that must be followed by the auditor and the audited body which is the subject of the report. We carry out our responsibilities under the National Audit Office's Code of Audit Practice.

We are mindful that the reporting periods on which we are reporting concluded some time ago and that there have been changes in the Clerk/RFO and Council's membership since then. However, we have decided to issue this report concerning Glemsford Parish Council to cover its governance and controls to highlight improvements that can be made by the new membership. We are also mindful that a number of improvements have been made but we are hopeful that this document will be used in a constructive way to continue to improve the governance arrangements at the Council.

We are required to send a copy of our report to the Secretary of State and we may send a copy of this report to any person we think appropriate. We have therefore also sent a copy of the report to the Monitoring Officer of the billing authority.

We refer the Council to paragraphs 4, 5, 7 through to 10 in particular of Schedule 7 of the Local Audit and Accountability Act 2014 which set out the requirements for publicity, consideration and decision-making in response to this report.

The Council must consider the report in public at a meeting held within one month of receiving it.

At that meeting, the Council must decide what action to take in response to our recommendations.

The Council is responsible for the use of funds raised by taxation and other sources. Citizens expect the Council to account for how it has used and protected those funds. The smaller authority is responsible for ensuring that its financial management is adequate and effective and that it has a sound system of internal control.

During the period covered by this report, we have found that the internal control system at Glemsford Parish Council was poor and many deficiencies existed which allowed the misappropriation of funds to go undetected for a number of years.

We believe that the issuing of this Public Interest Report together with the appointment of the new clerk, new internal auditor and new Councillors will provide a sound basis for the improvement of procedures and practices at Glemsford Parish Council.

Where several examples have been identified of such failings, we have used those examples which, in our opinion, best illustrate those failings.

The failings set out may have been detected earlier if there had been improved supervision and review undertaken of the clerk and the finances by the Council. Too much reliance was placed on the former clerk, who could initiate and complete payments of under £500 without any oversight by Councillors. When oversight was required as payments exceeded the £500 limit the controls in place appear to be very weak, if not non-existent as blank cheques were signed and payments initiated by the former clerk using online banking which was not reviewed or monitored by the councillors. Invoices or payments were not routinely resolved for payment at any meetings during the four years.

The failings which have been identified undermined the Council's arrangements for sound governance. Action is required to ensure that similar failings do not occur in the future. We understand that a number of the recommendations made in this report have already been acted upon and these are summarised at the end of this report.

It is our intention to certify completion of all outstanding audit years and bring our responsibilities to an end on with the issuing of this report.

Overview

A number of matters regarding events occurring at Glemsford Parish Council in the period from March 2009 to June 2011 have been brought to our attention by the Council. The Council reported the matter to the police and we liaised with them to establish the facts around the case. The matters raised in this report focus on events occurring in the four financial years ending 31 March 2009 to 31 March 2012.

The Council is responsible for the use of public funds raised by compulsory taxes. It is accountable to electors as taxpayers and users of Council services for how it uses those funds.

That accountability is secured in part by the preparation of an annual return:

- Summarising its financial position; and
- Giving assurances that it has a robust system of internal controls in place to protect public funds.

The Council made these assurances when they completed the annual returns for the years ended 31 March 2009 to 2012. However, when new Councillors were elected during 2011/12 they requested to see the accounting records. After reviewing these they discovered there were problems with payments paid and the Council contacted the police.

The police requested that a forensic audit was undertaken which was funded by the parish Council. This highlighted a number of deficiencies in the internal controls in operation during the years covered by this report.

- There was a lack of proper financial reporting at Parish Council meetings, failure on the part of the whole Council to concern themselves with financial affairs and placing trust in the clerk completely, so much so, that it was usual practice to sign blank cheques.
- Online banking had been set up without a Council resolution being passed.
- No budget was prepared or approved by the Council during the four years to 31 March 2012.
- Unsigned petty cash vouchers, payment for personal items and unusually large stationery orders were made by the former clerk.
- No evidence of any bank reconciliations being undertaken and reviewed by the councillors.
- All expenditure was passed by the internal auditor without question or report to the Council.
- The village Hall was hired for cash and some other cash transactions were not recorded properly.

Following the production of this report the police carried out extensive interviews.

The former clerk was dismissed and charged with 5 offences including fraud by abuse of position and false accounting. The total sum she was prosecuted for and for which she pleaded guilty on the 26th October 2015 was £16,000.

On the 30th November 2015 the former clerk was given a suspended sentence and a period of tagging.

In June 2016 we were provided with some evidence gathered by the police and we commenced with the production of this report.

Background

Glemsford Parish Council is part of the district of Babergh, in the county of Suffolk. It had an annual precept in the last year of the fraud 2011/12 of £83,000, and other income of just under £12,000.

A number of governance failings have been identified, which highlight a lack of internal control over monies in and out of Council bank accounts and the maintenance of accounting records at the Council.

In general:

The clerk had independent control over the maintenance of accounting records and the annual return and the order and payment of invoices. The former clerk controlled the online banking which was not monitored by any of the councillors and no bank reconciliations was undertaken by clerk and reviewed by any of the councillors.

The Council did not establish a budget in accordance with The Local Government Finance Act 1992, and so no budget monitoring was undertaken by the Council during the four year period.

Under the Local Government Act 1972, S150 (5), required two signatures to approve all orders for payments. This was repealed by The Legislative Reform (Payments by parish councils, community councils and charter trustees) Order. The practice of requiring two signatures on orders for payment is still proper practice if there is no suitable alternative arrangement in place.

The councillors at Glemsford Parish Council signed cheques with no evidence required of what the payments were for; this is evidenced by the discovery of signed blank cheques. The signing of blank cheques is a serious governance weakness which should never be done as it allows for fraud and misappropriation to occur.

The Council's accounting statements for a number of years were not approved in accordance with the Accounts and Audit Regulations 2011 which stipulate that the accounts must be approved by the end of June following from the year end. The accounting statements for the year ended 31 March 2009 and 2010 were approved in July following the end of the audit year. The accounting statements for year ended 31 March 2011 were not approved until December 2013, when the 2009 and 2010 revised annual returns were also approved.

No invoices were approved at Council meetings as none were listed on the summons for the meetings and no recorded evidence of any approvals is recorded in the minutes during the period under review. In accordance with Schedule 12, part II of the Local Government Act 1972 only business to be transacted as detailed on the summons can be discussed. Therefore items not listed on the summons must wait until the next meeting and be put on the Agenda of that meeting to be approved.

The Council did not carry out a risk assessment each year as part of its annual review of internal controls, as no reviews of the internal controls was undertaken. This is a breach of the Accounts and Audit Regulations 2011, regulation 6, later replaced by the Accounts and Audit Regulations 2015.

On all years the internal auditor completed the internal audit report on the annual return and no issues were highlighted by the internal auditor for consideration by the Council.

Fraud

It is our finding that the Council failed in its governance responsibility to put in place and regularly test adequate controls over the public money it was responsible for. This failure created an environment in which it was easy for fraud to occur, a serious weakness exploited by the former Clerk.

The fraud perpetrated by the former clerk involved the excess purchase of stationary and the subsequent sale of these items through a personal Amazon account. During the year to 31 March 2011, 320 printer cartridges were purchased by the Council from one supplier.

During the four years to 31 March 2012 very few payments were put before the Council to be authorised. Blank cheques were often signed with no reference to any invoices. Salary payments were not authorised in any year and the monthly salary cheque payments were only authorised from July 2011.

Cheques were paid with no reference to authorisation by the Council. Therefore, unauthorised costs were incurred which were not put before the Council. These included the former clerk's new glasses, home telephone calls, laptops and personal stationary costs.

The lack of control over budgets, authorisations and cheque signatories highlights significant areas of weakness, which should have been noted by councillors and the internal auditor and corrective action taken.

During the year to 31 March 2011 £9,200 was drawn by the former clerk from the bank in cash. However, no petty cash book was maintained and vouchers to support the cash purchases in the year, which could be found, only totalled £7,805. Of these vouchers only £1,252 could be cross referenced to invoices. The remaining vouchers were for the Clerk's mileage expenses and for other items. The claim forms were not counter signed as approved by anyone in the Council and they were not approved by the Council. The former clerk effectively approved her own expenses and reimbursed herself with no checks being undertaken by the councillors.

Due to the lack of a hall hire diary it is impossible to verify if the money was received and not banked or just not received due to no hire taking place. Due to this lack of accounting records, and internal control, the former clerk was not charged with any matter over missing income potentially not banked. However, it is a serious issue that should be corrected as soon as possible.

From the investigation undertaken by the forensic auditor they summarised that the costs which could not be verified to Council meeting minutes, or were paid in excess of agreed amounts amounted to over £30,000. This amount includes petty cash payments taken with no authority, potentially missing hall hire income, payments for printer cartridges and payments for personal items.

The former clerk was only charged with the fraud relating to the excessive purchase and resale of printer cartridges.

Internal control

There were specific weaknesses in the Council's internal control arrangements that allowed the fraudulent use of public money to go undetected.

The following failings concern the internal control aspects of the Council. The internal controls which operate in Parish and Town Councils are key to the effective operation of Councils. Without strong internal controls fraud and error can go undetected.

The Council operated a manual cash book and QuickBooks accounting software and the forensic work undertaken highlighted that the cash book for the year ended 31 March 2010 was well maintained and orderly. However, the level of record keeping at the Council had deteriorated for the year to 31 March 2011:

- A cash book was maintained but the columns were not added up or reconciled.
- The cash book contained numerous entries which were crossed out or changed
- The cash book contained references but these did not agree to any other records maintained.
- The invoices were not filed in any logical manner
- The QuickBooks postings did not agree to the manual cash book.

The disorganised nature of the filing and general record keeping by the former clerk suggests that errors or mistakes could easily have been made in the accounting function and not been identified by her, or any councillor if they had exercised any review of the records.

During the period March 2009 to June 2011, there were weak controls in operation at the Council. These weak internal controls arguably enabled various frauds to be perpetrated by the former clerk without detection at the time.

No budgets had been agreed for the four years to 31 March 2012, although a precept was set. This is in breach of the Local Government Finance Act 1992 and the Audit and Accountability Act 2014, which dictates how a budget calculation is prepared.

As no budget was prepared there was no budget monitoring during any of the four years to 31 March 2012.

There was no independent check and approval of monthly bank control accounts and reconciliations.

All cheques and transfers were not supported by invoices that had been independently approved by a councillor and ratified by the Council.

The Council did not set the scope of the internal audit as part of its system of internal control.

If any internal controls had existed, such as all bank reconciliations being prepared and presented to Council for review and approval, then the fraud may have been detected earlier. There is no evidence on any reconciliation being undertaken or that they were reviewed and accepted by the Council and no mention of a review is recorded in the minutes of the Council.

This lack of control evidences that the Council did not take its statutory responsibility seriously and as a result a fraud was perpetrated which went undetected.

The lack of control over petty cash highlights another significant area of weakness.

Petty cash records should be maintained which record money in from the bank and individual items of expenditure out. All expenditure out to be referenced to a claim form which is to be signed by the claimant, supported by invoices and countersigned as approved by a councillor. This did not happen as no expense system was in operation and as a result an amount of money, approximately £1,400, spent via petty cash cannot be accounted for as there was no review or checking process in place.

The Council owns a hall which is hired out from time to time to a few groups in the village, but no hall hire diary was in existence to agree the periods of hire to the income received. This lack of a hall hire diary highlights a further significant area of weakness. This lack of documentation would make it impossible for the Council, and the internal auditor, to review and ensure completeness of income.

Internal audit

The internal audit although it was undertaken on an annual basis did not highlight any issues with the internal controls, or lack of them:

- The Signing of blank cheques was not highlighted as an issue
- The operation of on line banking was not brought to the attention of the Council
- The lack of an expense policy was not drawn to the attention of the Council.
- The lack of the maintenance and review of the bank reconciliation
- The lack of an operation of a hall hire diary
- The lack of regular review and approval of payments, including salaries, by the Council

- The lack of an annual budget and no monitoring of income or expenditure during the year.

As none of the above issues were brought to the attention of the Council and audit reports were presented which highlighted no areas of concerns the Councils attention was not drawn to the lack of internal control which was in operation.

This lack of an effective internal audit is a failing of the Council as they have a statutory responsibility to ensure that the internal audit is effective and they are to evaluate the effectiveness of the internal audit in operation.

Conclusions

Corporate governance underpins how parish and town Councils operate. Without strong corporate governance arrangements fraud and error can go undetected and also the Council will not be able to ensure that they effectively direct and control the provision of their services to their inhabitants.

According to the Practitioners Guide, which sets out proper practices for local town and parish Councils, good governance, accountability and transparency are essential to local Councils and a cornerstone of the government's approach to improving public services.

Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards. They must also ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this responsibility, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources in their care. They are required to report on these arrangements in their published annual governance statement.

In order to comply with the principles of good governance the Council must undertake to ensure that systems and processes are continually monitored and reviewed, and are kept up to date.

The Council must improve its controls over all bank movements, payments and receipts as follows and they are to ensure they comply with the Safeguarding Public Money guidance issued within the Practitioners' guide.

- All transfers are to be authorised by Council.
- All cheques to be signed by two councillors, or other proper internal controls to be established.
- Cheques to only be signed once they have been agreed to a purchase order, an invoice and a confirmation of receipt or delivery note. The invoice to be initialled by the councillor approving the payment as evidence of review and payment
- All receipts to be agreed to receipt documentation.

- Petty cash to be established on an imprest basis, if used
- Any credit cards used to be regularly reviewed by Council, agreed to invoices and the payments authorised on a regular basis.
- Improvements to be made to the Council's budget setting process so that it is in accordance with the legislation.

In the four years to 31 March 2012 there was no review of the risks faced undertaken or reviewed by the Parish Council. This is a key governance issue and is a requirement of the Accounts and Audit (England) Regulations 2011, Regulation 4, which was in force at the time.

A review of the risks faced to be undertaken as soon as possible to highlight all the risks facing the Council.

This review to also attempt to either remove or mitigate those risks

The Council is responsible for the maintenance of the system of internal control and to implement a system of internal audit. The Council needs to improve its oversight of the controls in place and ensure they are fit for purpose.

Recommendations

The recommendations made in this report are made under Schedule 7 of the Local Audit and Accountability Act 2014. Therefore the report must be considered by the Council in accordance with that Act.

Since the appointment of the new clerk in September 2011 a number of changes have been made, such as:

- The replacement of the accounting software to ensure that a reporting package is used and can be relied upon.
- The introduction of a hall hire diary to control the hall hire income.
- The introduction of an annual cycle of reviews which includes the review of the internal controls and the risks facing the Council.
- The replacement of the petty cash with a charge card with a £500 limit of which the expenditure is approved by the Council on a monthly basis when it is used.
- The introduction of a budgeting process

In addition to the recommendations appearing earlier in this report, the following recommendations to be considered by the Council:

A budget is to be regularly reviewed against actual income and expenditure. This is to highlight the potential over spending and under recovery of income which can be investigated on a timely basis. This regular review, which is to form part of the regular agenda items, is to be minuted to evidence that it has taken place.

The clerk to be given authority to incur costs which have previously been budgeted for up to a specified limit but if additional unbudgeted costs arise these are to be approved by Council prior to the costs being committed.

The practise of signing blank cheques to stop immediately.

All payments to be approved at Council meetings.

Cheques are to be presented for authorisation for payment together with the invoice to support the payment. The invoice to be initialled as reviewed and accepted by the councillors signing the cheques.

If petty cash is to be used an imprest system to be started. A record of all petty cash payments made and income received to be regularly updated and reviewed by a councillor and then by Council on a regular basis. If the payments are settled by the charge card approval then the charge card to be reviewed and all entries agreed to invoices.

Expenses which are claimed are to be completed on a claim form, which is to be supported with invoices and signed by the claimant and counter signed by a councillor as evidence of approval. One councillor could be established to be the

authorising councillor for expenses. Any councillor expenses to be checked by the clerk and ratified by a meeting of the Council prior to any payments being made.

The hall hires to be reconciled on a regular basis to a diary which is to be maintained in order to evidence the hires. This is to be presented to Council on a regular basis for review and it is to also be reviewed by the internal auditor to ensure compliance.



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Dated.....

16/2/18

Appointed External Auditor
March 2002 to date

