

# *Public Sector Audit*

## Redbourne Parish Council

*Internal Audit Report for the year ended 31 March 2018*

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#### Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2018. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

### Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted:

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

#### Distribution List

Chairman of the Council

All members of the Council

Clerk to the Council

The findings of the audit are summarised below

	<b>Tests Performed</b>	<b>Findings and Recommendations</b>
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p><b>Findings</b> The cash book has been well maintained during the year. It has been prepared on spreadsheets on a receipts and payments basis and is arithmetically correct.</p> <p>It is sufficiently well analysed for the purpose of completing the Annual Return and is complete for the year. It was noted, however, that two payments of additional salary in respect of Transparency funding has not been included in staff costs on the Annual Return.</p> <p>A year-end bank reconciliation has been performed and reconciliations are presented bi-monthly to each meeting of the council.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● It may be useful to re-configure the cash book analysis columns to keep all staff costs together and hence more easily identify staff costs for the completion of the Annual Return.</li> </ul>
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p><b>Findings</b> The council reviewed and approved its Standing Orders and Financial Regulations at the Annual Meeting held on the 2nd May 2017, min 4.</p>
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u></p> <p><b>Findings</b> I have tested all expenditure within the year. All payments were appropriate and have been agreed to the payment schedules which are included in the minutes presented to council.</p> <p>I have reviewed the payments for occurrence, completeness, accuracy, correct year of account and</p>

		<p>classification within the council's accounts. It was noted that a minor clerical error resulted in a 5p overpayment of National Insurance during the year. HMRC may pick this up, as the 2016/17 tax year has now ended and advise the council accordingly. Otherwise it would not be cost effective to spend time seeking HMRC advice.</p> <p>I have found no expenditure for unusual items or items which are ultra vires.</p> <p>VAT has been correctly recorded for the current year. The VAT reclaim for the expenditure in respect of 2017/18 has been completed and submitted to HMRC.</p> <p>A separate account has correctly been maintained for s.137 expenditure although no expenditure has been coded to it during the year.</p> <p>Only one cheque was issued in July during 2017/18. The two signature rule has not, however, been observed by the council by evidencing the cheque counterfoils with the initials of both signatories.</p> <p>The majority of payments are now made by electronic transfer. All of the council's accounts are approved at the bi-monthly meetings and authorised by 2 signatories. The accounts are then paid online and the statement showing the payment is printed and attached to the invoice.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Cheque stubs should be initialled by both cheque signatories to evidence agreement with the details on the cheque and the documentary evidence provided in support of the payment at the time of signing.</li> <li>● It should never be assumed that registration for VAT purposes means that <i>all</i> value added tax can be recovered. Owing to the complexity of VAT legislation, it is recommended that advice be sought from HMRC when any new projects are undertaken, significant capital expenditure is being considered or any new matters arise.</li> </ul>
4	Has the council assessed the significant risks in delivering its activities and services and regularly	<p><u>Assessment of significant risks</u></p> <p><b>Findings</b></p> <p>The council's Financial and Health &amp; Safety Risk Assessments were reviewed and approved at the Annual</p>

	<p>reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p>Meeting held on the 2nd May 2017, min. 6. The Financial Risk Assessment covers Financial control, the protection of council owned assets, insurance provision and VAT. The Health &amp; Safety Risk Assessment covers the council's notice board; seats play equipment and parish owned and maintained land and buildings.</p> <p>The council's insurances have been reviewed and were renewed on 1 June 2017. The indemnity limits are considered to be adequate. Min 1711.12.a confirms the sale of the council's anvil. It is noted, however, that this asset still appears on the schedule of assets in the council's insurance policy.</p> <p>The council has a Service Level Agreement with North Lincolnshire Council to inspect the Vicarage Lane play area annually and playground Health and Safety check sheets are submitted to each council meeting identifying the weekly checks undertaken and any remedial action considered necessary.</p> <p>Basic Internal Financial Control Procedures are contained within the council's Financial regulations.</p> <p>All of the council's electronic records are backed up monthly onto an external hard drive which is kept off the council's premises.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The anvil should be removed from the insurance policy prior to renewal.</li> <li>● On the 25th May 2018 the General Data Protection Regulation (GPR) will come into effect. This applies to all Town and Parish Councils. The council should, therefore, prepare to comply with the Regulation by: <ul style="list-style-type: none"> <li>• Undertaking an audit of all personal data held including staff, councillors and the public.</li> <li>• Appointing a Data Protection Officer who has sufficient skills and knowledge about the GDPR and other Data Protection laws to adequately discharge the role.</li> </ul> </li> </ul> <p>More information can be found on the Information Commissioners website, <a href="http://ico.org.uk">ico.org.uk</a>. The site has links to two useful guides, "GDPR: 12 steps to take now" and "Getting ready for the GDPR checklist"</p>
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p>	<p><u>Adequate budgetary process</u></p> <p><b>Findings</b></p> <p>The council has prepared an annual budget in support of its precept.</p>

	<p>Has progress against budget been regularly monitored and reported?</p> <p>Are reserves adequate and appropriate?</p>	<p>Budget monitoring reports are presented to the council on a two monthly basis. The reports are signed by the Clerk and two members of the council.</p> <p>Year end balances were £18,980 as at 31/03/18. The year-end reserves statement identifies earmarked reserves totalling £8,982. The total remaining unallocated balance of £9,998 is considered to be reasonable and prudent for Redbourne Parish Council.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● It is understood that North Lincolnshire Council has imposed stringent conditions on Local Councils for the receipt of Council Tax Grant for 2018/19. The council should ensure, therefore, that it fully considers the legal and financial implications of these conditions if it wishes to continue to receive the Grant element of the Precept.</li> </ul>
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u></p> <p><b>Findings</b></p> <p>The NLC precept remittance advice agrees with the income received in the cash book and the bank. The precept (comprising precept of £11,305 and grant of £695) was paid in one instalment of £12,000 on the 25th April 2017.</p> <p>Other income received by the council includes various grants and donations, PCC fees, the annual VAT refund, Transparency funding, the sale of a printer and a small amount of bank interest. The Clerk has advised that there is no documentary evidence in support of the Transparency funding received and the sale of the printer.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● Documentary evidence for all council income should be obtained at the time of receipt and retained or audit purposes.</li> </ul>
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p>	<p><u>Appropriate petty cash controls</u></p> <p><b>Findings</b></p> <p>The council does not maintain a separate petty cash system.</p> <p>All petty expenditure incurred by the Clerk and councillors is reclaimed and reimbursed through the normal payments system and is authorised by Full Council together with all other council expenditure.</p>

	Has VAT been correctly accounted for?	VAT expenditure has been separately analysed and identified in the cash book.
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p><u>Adequate payroll controls</u></p> <p><b>Findings</b></p> <p>The council's previous and current Clerks' contracts of employment contain clear terms and conditions.</p> <p>All gross pay paid each month has been paid in accordance with the contracts of employment, hours worked and NJC conditions.</p> <p>The Clerk's new contract includes a requirement for Internal Audit to validate that the pension contributions paid to him by the council have been paid into a pension fund. I have reviewed the Clerk's pension documentation and confirm that the payments made by the Clerk into the plan equal the council's contribution.</p> <p>All other payments and allowances are reasonable and approved by the council.</p> <p>The Clerk is subject to PAYE and NI regulations and all PAYE and NI deductions have been correctly paid to HMRC.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● HMRC requires employers to submit annual declarations of certain expenses and benefits paid to employees. For example, an employer providing homeworking expenses for its employees has certain tax, National Insurance and reporting obligations. The council should ensure therefore that all HMRC guidance is followed and the necessary returns are submitted prior to the statutory deadline. More information in relation to this can be found on "gov.uk/annual reporting and tasks/expenses and benefits."</li> </ul>
9	Is the asset and investment register complete and accurate and reviewed on a regular basis?	<p><u>Appropriate recording of assets</u></p> <p><b>Findings</b></p> <p>The asset register is in the form of spread sheets which identify the council's assets, where they are held and the value for the purpose of the Annual Return.</p> <p>Although the register has been prepared in this format for a number of years it is not in the recommended</p>



		<p>NALC/SLCC format. The recommended format includes identification details such as any known serial numbers, the custodian of the asset and disposal details. The recommended format can be found in the 2014 Governance and Accountability Guide for Local Council, page 99.</p> <p>The register was formally reviewed and approved at the council meeting held on the 6th March 2018, min. 1803/04 (d).</p> <p>The register has been updated to reflect purchases during the year.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council should revise the format of the Asset Register to the recommended format to include, inter alia, disposal details.</li> </ul>
10	<p>Were bank reconciliations performed on a regular and timely basis? Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p><b>Findings</b></p> <p>A year-end bank reconciliation has been performed and reconciliations were also presented bi-monthly to the council.</p> <p>There are no unexplained balancing entries in the reconciliations.</p> <p>The reconciliations have been signed and dated by the preparer and signed and dated as authorised by the Chairman and one other member.</p>
11	<p>Were the year-end accounts prepared on the correct accounting basis and are they supported by adequate working papers and adjustments, transfers, contra entries etc. which are fully explained and justified?</p> <p>Is there is an adequate audit trail</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p><b>Findings</b></p> <p>The year-end statements have been prepared on the correct accounting basis (Receipts and Payments) and, therefore, debtors and creditors have not been included. The Accounting Statement agrees to the cash book and there is an audit trail from underlying financial records to the year-end statements. It is noted, however, that box 4, staff costs does not include the additional hours paid to the previous Clerk in May and July 2017 in respect of the Transparency Code.</p> <p>The Clerk has identified that the figure for balances in box 7 last year was incorrectly stated by £1.00 owing to</p>

	<p>from underlying records and, where appropriate, have debtors and creditors been properly accounted for?</p> <p>Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p>rounding. As a result of this, the opening figure for balances in the current year, as stated in box 1, does not agree to box 7 last year. It is an External Audit requirement that both of these figures agree.</p> <p>The 2016/17 Internal Audit Report was presented to council on the 2nd May 2107, min. 1705/13 (d).</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Box 4 of the Annual Return should be amended to include the gross salary payments made to the previous Clerk in May and July 2017.</li> <li>● Box 6, all other payments, will also need to be amended to reflect the increase in box 4.</li> <li>● Box 7, for year ended 31st March 2017, should be restated and annotated as "restated" on section 2 - Accounting Statements 2017/18. The External Auditor has advised that an explanatory note included with the year-end papers would be helpful.</li> </ul>
12	<p>Has the council met its responsibilities as a trustee?</p>	<p><u>Trustee responsibilities</u></p> <p><b>Findings</b></p> <p>I have seen no evidence that the council has responsibility for Trust Funds and the Clerk has confirmed that this is the case.</p>
13	<p>Are council's minutes maintained in accordance with legislative requirements?</p>	<p><u>Correct maintenance of council minutes</u></p> <p><b>Findings</b></p> <p>The council's minutes are in a loose-leaf format and have been consecutively numbered throughout the year.</p> <p>Each leaf of minutes has been signed and dated by the person presiding thereat in accordance with the Local Government Act 1972 (schedule 12.41(2)).</p>

## Executive Summary

Under the stewardship of the new Clerk, the accounts and governance arrangements of the council have continued to be maintained to a high standard and the assistance of the Clerk in the completion of this audit was appreciated.

The internal financial control environment within the council is good and the adoption of the above recommendations will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2016.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

*Public Sector Audit*

13<sup>th</sup> April 2018

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