

# *Public Sector Audit*

## Sancton Parish Council

### *Internal Audit Report for the year ended 31 March 2019*

*Public Sector Audit*

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### **Internal Audit Report for the year ended 31 March 2019**

#### 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 2019. 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.

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## 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

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The findings of the audit are summarised below

	<b>Test</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 is maintained on spreadsheets on a receipts and payments basis and is arithmetically correct. Separate monthly spreadsheets are consolidated into a final year-end summary for year-end purposes.</p> <p>It is comprehensively analysed for the purpose of completing the Annual Return and is complete for the year.</p> <p>Monthly and a year-end bank reconciliations have been performed and reconciliations are presented to each meeting of the council.</p>
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's Standing Orders and Financial Regulations were reviewed and approved at the council meeting held on the 22<sup>nd</sup> May 2018.</p>
3	Are payment controls effective and VAT properly accounted for?  Has the council recorded s137 expenditure separately and is it within the statutory limit?	<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 classification within the council's accounts. It is noted that, as the grounds maintenance contractor has withdrawn from the three year long term agreement, the council has sought quotations for 2019/20.</p> <p>VAT has been correctly identified and recorded in the cash book for inclusion in the current year. A sample of VAT expenditure during the year has been checked and agreed to the reclaim from HMRC.</p>

	<p>It is noted that a separate account has been maintained for s.137 expenditure. No expenditure has been coded to this statutory power during the year however.</p> <p>The two signature rule has been observed by the council and evidenced by the cheque counterfoils being initialled by two signatories.</p> <p>The issue of councils requiring a licence if they play recorded music in public has recently been raised. It is NALC's view that a council will be obliged to pay for a PPL PRS Music Licence if it plays recorded music in public.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Following the release of a briefing note (LO1-18) from NALC last year, the council needs to be aware that section 8 of the 1894 Local Government Act prohibits a Parish Council from incurring expenditure on "property relating to the affairs of the church or held for an ecclesiastical charity". It is NALC's view that this prohibition still applies and is not overridden by the general provisions of section 137 of the 1972 Local Government Act. Section 137 expressly provides that expenditure cannot be incurred for purposes which are subject to a statutory prohibition, restriction or limitation and cannot, therefore, be used for the maintenance or upkeep of property or land owned by the church.</li> <li>● If the council plays recorded music in public it may wish to enquire whether a licence fee is payable to PPS PRS Ltd. Further information can be found at "<a href="http://www.gov.uk/licence-to-play-live-or-recorded-music">www.gov.uk/licence-to-play-live-or-recorded-music</a>"</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>
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4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly 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><u>Assessment of significant risks</u></p> <p><b>Findings</b></p> <p>The council's Risk Assessments and Health and Safety Policy were reviewed and approved by council on the 22<sup>nd</sup> May 2018. Detailed Risk Assessments are maintained for the Houghton Lane Play Area and the Back Field, Village Field, the pond, other assets and financial and general liabilities.</p> <p>The Play Area is monitored weekly by a councillor and annually by an independent company. Inspections are reported to council monthly and remedial action is taken as necessary. The Play Area weekly monitoring is recorded on Play Area Checklists which include provision for the recording of action taken and date completed.</p> <p>I have reviewed the council's insurance cover and confirm that the levels of indemnity provided by the policy are adequate.</p> <p>The council's electronic records are protected by backing up electronic information hourly on to UK based cloud storage and monthly to external hard drives, one of which is always stored offsite.</p> <p>It is noted that the council approved and adopted documents and policies in relation to the General Data Protection Regulations at the meeting held on the 22<sup>nd</sup> May 2018.</p>
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p><b>Findings</b></p> <p>The council prepared a detailed annual budget in support of its precept.</p> <p>Detailed budget monitoring reports are presented to each council meeting and are signed by the Chairman.</p> <p>Year end balances were £22,598 as at 31/03/19. The balances comprise earmarked reserves of £8,578, principally for the car park, a small amount of residual Transparency Funding and general reserves of £14,020. General reserves equate to 108% of the 2019/20 Precept which is considered to be prudent for a council the</p>

		<p>size of Sancton.</p> <p>It is considered to be good practice for councils to approve a formal Reserves Statement annually. Such a statement should identify individual earmarked reserves, any movement on each reserve during the year and the purpose for which they are intended.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council may wish to consider adopting an annual Reserves Statement as part of overall financial control.</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 precept and grant income of £13,020 agrees to the Council Tax Authority's remittance advices and the cash book.</p> <p>The council also received income from HMRC for the recovery of VAT, the cemetery, grants and a small amount of bank interest.</p> <p>I have checked all income received during the year to supporting documentation and the cemetery Scale of Charges. It is noted that the council reviewed and amended the Scale of Charges at the meeting held on the 20<sup>th</sup> August 2018.</p> <p>It is also noted that, owing to an administrative error that occurred in 2015, the council agreed to waive a burial fee during the year.</p> <p>During discussions with other Town and Parish Councils during the year it has become apparent that the Clerks of some councils have received different and sometimes conflicting advice from consultants in respect of charging VAT on some council services.</p>

		<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● VAT is extremely complex and if the council is in any doubt about the correct VAT treatment in respect of providing goods or services to the public, detailed advice and guidance on the council's specific situation should be sought from HMRC.</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>Has VAT been correctly accounted for?</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 or members of the council is reclaimed and reimbursed through the normal payments system and is authorised by council together with all other council expenditure.</p> <p>VAT expenditure has been separately analysed and identified in the cash book.</p>
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 Clerk has a formal contract of employment which contains clear terms and conditions.</p> <p>I have agreed all salary and allowances payments to those approved by the council and the 2018/19 NJC national pay award.</p> <p>Salary payments have been subject to PAYE and NI regulations but no statutory deductions were due to HMRC.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council should be aware that the Pensions Regulator has advised of statutory minimum pension contributions which came into effect on the 6<sup>th</sup> April 2019. The minimum employer contribution of 3% of salary and minimum employee contribution of 5% of salary apply if the council employ staff in an automatic</li> </ul>



		enrolment pension scheme.
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 a schedule which identifies the council's assets, date acquired (if known), the custodian, the purchase price (or nominal value if not known), the valuation for both insurance and Annual Return purposes and details of any disposals.</p> <p>The register was reviewed and approved at the council meeting held on the 22<sup>nd</sup> May 2018.</p> <p>Additional assets purchased during the year have been correctly added to the register at cost price.</p>
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>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>Monthly bank reconciliations have been prepared. They are presented in the recommended format to include both of the council's bank accounts and do not contain any unusual or balancing figures.</p> <p>Each of the reconciliations has been signed as authorised by the Chairman.</p> <p>The reconciliations have been presented to council monthly as part of the Finance Reports and minuted as such.</p>
11	Were year-end accounts prepared on the correct accounting basis and supported by adequate working papers and adjustments, transfers, contra entries etc. which are fully explained and justified?	<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.</p> <p>The statements agree with the cash book and there is an audit trail from underlying financial records to the</p>

	<p>Is there an adequate audit trail from underlying records and where appropriate have debtors and creditors have been properly accounted for?</p> <p>Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p>year-end statements.</p> <p>The Internal Audit Report in respect of 2017/18 was reported to council on the 22<sup>nd</sup> May 2018 and the recommendations were noted and approved.</p>
12	Has the council met its responsibilities as a trustee?	<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	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<p><u>Exemption Certificate</u></p> <p><b>Findings</b></p> <p>Section 2, Accounting Statements, of the Annual Governance and Accounting Return Part 2, identified that the council's gross income for last year or gross annual expenditure for the year did not exceed £25,000.</p> <p>The Clerk has confirmed that the exemption criteria identified on the Certification of Exemption for last year were fully met by the council.</p>
14	Are the council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p><b>Findings</b></p> <p>The council's minutes are maintained in a loose leaf format.</p> <p>Each page has been signed as a true record by the Chairman in accordance with the Local Government Act 1972 (Schedule 12.41(2)).</p>

		All minutes have been consecutively numbered throughout the year in accordance with legislative requirements.
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## Executive Summary

The accounts and governance arrangements of the council have been maintained to a very high standard and the assistance of the Clerk of the council in the completion of this audit was much appreciated.

The internal financial control environment within the council is excellent and consideration of the advisory notes 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 2018.

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*

1<sup>st</sup> May 2019

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