

Public Sector Audit

Sancton Parish Council

Internal Audit Report for the year ended 31 March 2020

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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 2020. 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

	Test	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p>Findings</p> <p>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>Findings</p> <p>The council's Standing Orders and Financial Regulations were reviewed and approved at the Annual Council meeting held on the 13th May 2019.</p> <p>In July 2018 NALC revised its Model Standing Orders from the previous Model that was published in March 2018. This was done to correct a minor error, update the previously published requirement to appoint a Data Protection Officer and clarify the position regarding the requirement for councils to advertise contracts in excess of £25,000 on the Contracts Finder website. The details of these amendments are contained in the NALC document "LO9 - 18 Model Standing Orders amendments" published in July 2018.</p> <p>The council updated its Financial Regulations to reflect the latest NALC model and approved a change in the requirement for three quotations from £501 to £1,500 at the meeting held on the 21st October 2019.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should update its Standing Orders to the latest NALC Model to reflect legislative changes.

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>Findings</p> <p>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 and agreed the payments for occurrence, completeness, accuracy, correct year of account, compliance with Financial Regulations and classification within the council's accounts.</p> <p>VAT has been correctly identified and recorded in the cash book for inclusion in 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>
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>Findings</p> <p>The council's Risk Assessments and Health and Safety Policy were reviewed and approved by council on the 13th May 2019.</p> <p>The council maintains detailed Risk Assessments 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.</p> <p>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>It is recognised as good practice for formal inspection sheets to be completed for all routine inspections of land and assets. These can be invaluable in the event of a claim against the council, for injury, to evidence that the council has not neglected its legal responsibilities to third parties. Such inspection sheets should identify the area or asset inspected, dates of inspection and signature of the person who undertook the inspection. Any issues or faults should be noted and there should be provision on the sheets to note when any faults have been rectified. They should be passed to the Clerk for review, action if necessary and filing.</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>Recommendation</p> <ul style="list-style-type: none"> ● The council should consider the introduction of formal inspection sheets to evidence all inspections currently undertaken.
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>Findings</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 £23,348 as at 31/03/20. The balances comprise earmarked reserves of £16,590 for the car park and general reserves of £6,758. General reserves equate to 103% of the 2019/20 Precept which is considered to be prudent for a council the size of Sancton.</p>

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>Findings The Precept income of £13,020 agrees to the cash book and the bank.</p> <p>The council also received income in respect of two HMRC VAT reclaims covering the period 01/01/18 to 31/08/19, the cemetery and the refund of a Direct Debit error.</p> <p>I have checked all income received during the year to supporting documentation and the revised cemetery Scale of Charges that was approved on the 17th June 2019.</p>
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>Findings The council does not maintain a separate petty cash system.</p> <p>All petty expenditure incurred by the Clerk and 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><u>Adequate payroll controls</u></p> <p>Findings The Clerk has a formal contract of employment which contains clear terms and conditions. It is noted that, following an annual appraisal, a new contract is to be drafted to reflect changes in terms and conditions of employment.</p> <p>I have agreed all salary and allowances payments to those approved by the council and the 2019/20 NJC pay award.</p>

	Has PAYE and NI been correctly deducted and paid to HMRC?	<p>Salary payments have been subject to PAYE and NI regulations but no statutory deductions were due to HMRC.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Following the issue of updated guidance from HMRC during September last year, the council should note that it is unable to claim Employment Allowance unless it has charitable status. The council should, therefore, check that it is not claiming this allowance and if it is, it should untick the box on the payroll software system to cease claiming it. Further advice can be obtained using the following link; www.gov.uk/government/publications/employment-allowance-more-detailed-guidance/eligibility-for-employment-allowance-further-employer-guidance
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>Findings</p> <p>The Asset Register is in the correct format and 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 Annual Council meeting held on the 13th May 2019.</p> <p>Additional assets purchased during the year have been added to the register at the correct valuation.</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</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings</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>

	and evidenced as such?	
11	<p>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> <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 Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p>Findings</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 year-end statements.</p> <p>The declaration of assets in box 9 on the Accounting Statement agrees with the total of the Asset Register.</p> <p>The Internal Audit Report in respect of 2018/19 was reported to the Annual Meeting of the council on the 13th May 2019 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>Findings</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>Findings</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>

		The council has confirmed that the exemption criteria identified on the Certification of Exemption for last year were fully met.
14	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<p><u>Exercise of Public Rights</u></p> <p>Findings</p> <p>I have confirmed by a review of the council's website that, during the summer of 2019, the council correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the 2015 Accounts and Audit Regulations.</p>
15	Are the council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p>Findings</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> <p>All minutes have been consecutively numbered throughout the year in accordance with legislative requirements.</p>

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 the adoption of the above recommendations and consideration of the advisory note will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place.

Paragraph 5.106 of the NALC/SLCC 2019 Governance and accountability Guide identifies that:

“Authorities should note that it is not part of internal audit’s responsibility to review or ‘sign off’ the completed Annual Governance and Accountability Return. Internal audit report(s) should inform the authority’s responses to assertions 2 and 6 in the annual governance statement. Internal audit reports should therefore be made available to support and inform members considering the authority’s approval of the annual governance statement.”

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2019.

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

Richard Dixon

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30th April 2020

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