

Public Sector Audit

Reighton and Speeton Parish Council

Internal Audit Report for the year ended 31 March 2016

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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 2016. 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: Page | 3

- 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

	Tests Performed	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p>Findings</p> <p>The cash book is maintained on spreadsheets on a receipts and payments basis and is arithmetically correct.</p> <p>It is comprehensively analysed to identify the classification of income and expenditure and shows evidence of being balanced to the bank.</p> <p>It was noted, however, that the Clerk's employment expenses have been included in an Admin column and not therefore included as staff costs for the purpose of the Annual Return. The creation of a Staff Costs column in the cash book, which could be used for PAYE and employment costs, would facilitate the completion of the Annual Return.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should introduce a staff costs analysis column in the cash book to assist with the completion of the Annual Return.
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p>Findings</p> <p>Standing Orders and Financial Regulations were adopted by council on the 19th May 2015, minutes 23/15 and 24/15.</p> <p>Min. 82/15 of the council meeting held on the 29th September resolved to amend Standing Orders and Financial Regulations to reflect the new procurement requirements of the Public Contract regulation 2015</p> <p>I have been advised by the Clerk that both Standing Orders and Financial Regulations have been amended to reflect the new legislation and will be reviewed and approved at the Annual Meeting held in May 2016.</p>
3	Are payment controls effective and VAT properly accounted for? Has the council recorded s137	<p>Findings</p> <p>I have tested all payments during the year to ensure that there is a fully approved and authorised invoice, the payment appears in the bank account and conforms to Financial Regulations and it has been reported to council. It was noted that there was no contract in place for Grass cutting and parks and open spaces and the</p>

<p>expenditure separately and is it within the statutory limit?</p>	<p>company was requested to continue with on-going work for 2015/16. The Clerk has advised that the company has been asked to provide a quotation for 2016/17.</p> <p>I have reviewed the payments for completeness, accuracy, appropriate year of account and classification. It was noted that some minor errors occurred during the year concerning the Clerk's expense payments. The Clerk has confirmed that she will correct these in the current year by adjusting the next payment schedule.</p> <p>I have tested to ensure that VAT has been identified, correctly recorded and reclaimed. In all cases the VAT element of the invoice has been reclaimed from HMRC. It was noted, however, that VAT of £75.49 included on the paperwork for the new computer could not be included in the VAT reclaim because an official invoice had not been obtained.</p> <p>S.137 expenditure is separately identified in the council's accounts. No expenditure has been coded to this during the year however.</p> <p>I have checked for compliance with the two signature rule to demonstrate that two people were involved in all payments made by the council. It was found that, for the majority of payments made, the two signature rule has been observed and evidenced by both of the cheque signatories initialling the cheque stubs.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● In accordance with Financial Regulation 11.1.vi (h) the council should strive to obtain 3 estimates for work between £500 and £2,000 and 3 quotations for work between £2,000 and £10,000. ● The next payment schedule should be adjusted to correct minor clerical errors that have occurred on the Clerk's expense claims. ● An official VAT invoice should always be obtained from suppliers to enable the council to reclaim the VAT from HMRC. ● All cheque stubs should be initialled by both cheque signatories to demonstrate agreement with the cheque drawn and the documentary evidence provided at the time of signing.
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		<ul style="list-style-type: none"> ● 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. ● The Council is reminded that it must not incur expenditure based on a decision made from an issue raised during "matters arising from the minutes of the previous meeting." In accordance with the Local Government Act 1972, Schedule 12, paragraph 10(2) (b) such expenditure could be held to be unlawful.
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>Findings</p> <p>The council has a comprehensive set of Risk Assessments which cover the functions and services of the council. It was noted that they have not yet been reviewed and approved by council.</p> <p>Members are ultimately responsible for risk management and, as a minimum, at least once each year members should:</p> <ul style="list-style-type: none"> • take steps to identify and update the record of key risks facing the council; • evaluate the potential consequences to the council if an event identified as a risk takes place; • decide upon appropriate measures to avoid, reduce or control the risk or its consequences; • record any conclusions or decisions reached. <p>Last year the Internal Auditor recommended that Risk Assessments should be created for lighting units, public seats, shelters and notice boards. It is noted that the council's current Risk Assessments include reference to "risk to third party property or individuals" and "legal liability as a result of asset ownership". The current controls in place to cover these risks are identified in the Risk Register as "<i>risk assessments site/activity specific for all council functions</i>" and "<i>regular inspections and written records kept. Requests for repair actioned by the clerk as to routine or emergency</i>".</p> <p>I have reviewed the council's insurance policy and confirm that the limits of indemnity are adequate. It is noted, however, that the policy schedule submitted to audit does not include cover for any assets owned by the council.</p>

		<p>The council's internal financial control procedures are documented within the council's Financial Regulations.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council's Risk Assessments should be reviewed and approved by council as a matter of some urgency and be reviewed and approved by council annually. ● The council will need to ensure that all of its risks are covered by the Risk Register and appropriate measures have been put in place to mitigate those risks. ● The council may wish to consider insuring its assets and adding them to the policy schedule.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported?</p> <p>Are reserves adequate and appropriate?</p>	<p>Findings</p> <p>The council prepared an annual budget in support of its precept.</p> <p>The Council Tax Authority's precept remittance advices agree to the income received in the cash book and the bank.</p> <p>Budget monitoring reports, which identify both receipts and payments to date against the original budget and the remaining balances, were presented to council monthly.</p> <p>The year-end balance at 31/03/16 is £17,782 and the 2105/16 precept was £4,050, i.e. 439% of precept. It is noted, however, that the council is responsible for some footway lighting in the Parish and the maintenance of this level of balance is considered to be reasonable to provide a contingency fund for any future liabilities for these assets.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should consider whether it wishes to formally adopt a reserves fund for its street lighting liabilities.
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p>	<p>Findings</p> <p>The council's precept income agrees to the Council Tax Authority's remittance advices and the bank account.</p> <p>The council does not have, or need, a scale of charges and no trust fund income has been received.</p>

	<p>Were security controls over cash and cash equivalents effective?</p>	<p>Apart from the precept, income received during the year included a VAT refund, the refund of a subscription to Scarborough Roads Liaison Committee, Yorkshire LCA Model Agreement 2015/16, NYCC grass cutting and Cluster funding for signposts and frames for maps.</p> <p>Documentation has been seen in support of all council income and all income was banked intact.</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>Findings The council does not maintain a petty cash system.</p> <p>Any petty disbursements are reimbursed to the clerk together with salary payments as part of the normal payment process.</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>Findings The Clerk is the council's only employee and the contract of employment contains clear terms and conditions.</p> <p>I have agreed all salary payments made during the year to the contract.</p> <p>Allowances paid during the year have been agreed to the contract and are reasonable.</p> <p>PAYE and National Insurance deductions have been correctly paid to HMRC.</p>
9	<p>Is the asset and investment register complete and accurate and reviewed on a regular basis?</p>	<p>Findings The council maintains an Asset Register which identifies the council's footway lighting, seats, bus shelters and notice boards.</p> <p>All assets have been valued at a nominal figure of £1.00 each for the purpose of the Annual Return which, in the absence of original cost figures, is the correct valuation method.</p>

		<p>The council does not hold any investments.</p> <p>The Asset Register was considered by council at the Annual meeting on the 19th May 2015, min. 30/15 and it was resolved to postpone the review to allow it to be updated in accordance with the NALC/SLCC Governance and Accountability Guide for Local Councils.</p> <p>The total valuation of the Asset Register agrees to the declaration in box 9 of the Annual Return. It was noted, however, that a computer and software purchased in March 2016 at a cost of £453 has not yet been added to the Asset Register.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council's computer should be added to the Asset Register at original cost and included in the total asset valuation figure in box 9 on the Annual Return. ● The Asset Register should be re-presented to council for review and approval.
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>Findings</p> <p>Formal bank reconciliations are not undertaken during the year. For a council the size of Reighton and Speeton interim reconciliations should be prepared quarterly and presented to council for review and approval.</p> <p>I have been unable to verify the year end bank reconciliation because the statement provided to audit in respect of the council's savings account covers the period 4th July 2012 to the 2nd January 2015.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Interim bank reconciliations should be performed quarterly. They should be in the same format as the year end reconciliation and be presented to council for review and approval. They should be signed and dated by the Clerk and authorised and dated by the Chairman and their review noted in the minutes. ● Bank statements must be obtained for the council's savings account showing the 2015/16 opening and closing balances and all transactions and interest received during the year.

		<ul style="list-style-type: none"> ● For 2016/17 onwards savings account statements must be obtained to enable the movement of funds during the year to be recorded in the cash book and the interim and year end bank reconciliations to be prepared.
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 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>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>There is an audit trail from underlying financial records to the year-end statements.</p> <p>It is noted, however, that the allowance paid to the Clerk for working from home and travel costs, mileage etc. has not been included in staff costs. The NALC/SLCC Governance and Accountability Guide and the guidance note on the Annual Return confirm that employment expenses must be included as staff costs in box 4 on the Return.</p> <p>Box 6, All Other Payments, will need to be reduced to reflect the increase in the value of box 4.</p> <p>Box 9, Fixed Assets, does not include the recently purchased computer and software.</p> <p>The 2014/15 Internal Audit Report was presented to council on the 19th May 2015 and it was minuted that it be accepted.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The figure declared in box 4, Staff Costs, on the Annual Return should include all employment expenses as defined in the NALC/SLCC Governance and Accountability Guide for Local Councils. ● The figure declared in box 6, All Other Payments, will need to be reduced to reflect the increase in the value of box 4. ● The figure declared in box 9, Fixed Assets, should include the council's new computer and software at the original cost of £453.

12	Has the council met its responsibilities as a trustee?	<p>Findings 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	Are council's minutes maintained in accordance with legislative requirements?	<p>Findings The minutes provided to audit cover the whole year.</p> <p>The minutes are maintained in a loose leaf format and have been signed and initialled and consecutively numbered in accordance with the Local Government Act 1972.</p>

Executive Summary

The co-operation of the clerk of the council in the completion of this audit was much appreciated.

The adoption by the council of the recommendations contained within this report will serve to strengthen the financial control environment and governance procedures within the council.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2014.

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

24th May 2016

Public Sector Audit