

Public Sector Audit

Reighton and Speeton Parish Council

Internal Audit Report for the year ended 31 March 2017

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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 2017. 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

	Tests Performed	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 and is arithmetically correct.</p> <p>It is noted that the last payment in the cash book for the year is for Zurich for 2017/18 insurance. As this was transferred electronically on the 7th April 2017 it should appear in the records for 2017/18 and not 2016/17. Since raising this with the Clerk the cash book and year-end bank reconciliation have been revised.</p> <p>The cash book is comprehensively analysed to identify the classification of receipts and payments during the year and provide sufficient information for the completion of the Annual Return.</p> <p>I reported last year that the Clerk's employment expenses were included in an administration column and not, therefore, included as staff costs for the purpose of the Annual Return. During 2016 a new NALC/SLCC Governance and Accountability Guide was published and I have since received revised guidance from the External Auditor that the figure for Staff Costs in box 4 should "not include payments made in respect of untaxed home allowances reimbursed to employees".</p> <p>This is a change to the reporting arrangements for the Annual Return and means that home allowance payments will now again have to be included under administration in the cash book.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As the council's basis of accounting is receipts and payments, the accounts should only reflect receipts and payments which actually occurred during the year. ● Home allowance payments should be included under administration in the cash book to facilitate the completion of the Annual Return.

2	<p>Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?</p>	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p>Findings Standing Orders and Financial Regulations were adopted by council on the 31st May 2016. It is noted, however, that whilst Financial Regulations have been amended to reflect the new procurement requirements of the Public Contract regulation 2015, Standing Orders have not been similarly amended.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should amend its Standing Orders to reflect changes in the contracting arrangements for the supply of goods and services in accordance with legislative requirements.
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 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 that it has been reported to council. It was noted that 6 payments made during May and July 2016 have not been reported to council.</p> <p>It is noted that, again, this year there is no contract in place for grass cutting and parks and open spaces; three estimates for carrying out this work were not sought in accordance with Financial Regulation 11.1.g.</p> <p>I have reviewed the payments for completeness, accuracy, appropriate year of account and classification.</p> <p>As recorded in 1 above, one payment which was made in 2017/18 has been included in 2016/67.</p> <p>I have identified no expenditure for unusual items or payments which may be ultra vires.</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.</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</p>

		<p>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 its Financial Regulations the council should seek 3 estimates for contracts between £100 and £3,000. ● All payments must be reported to council for review and approval. ● Only receipts and payments which have actually occurred during financial the year should be included in the council's accounts. ● 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. ● 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.
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 has a comprehensive set of Risk Assessments which cover the functions and services of the council. They were reviewed and approved by council on the 28th March 2017, min 22/17</p> <p>The Clerk has confirmed that all councillors are very active in respect of maintenance within the village and there is a village maintenance item on each council agenda. The Clerk is advised by email if any issues arise and a decision is taken as to whether the problem needs to be actioned immediately or whether it goes to the next council meeting. I have not received documentary evidence of any inspections undertaken to enable me to review these as part of the audit. The Risk Register identifies, under the heading "legal liability re. asset ownership" that written records are kept.</p> <p>I have reviewed the council's insurance policy and confirm that the limits of indemnity are adequate.</p>

		<p>The council's basic internal financial control procedures are documented within Financial Regulations. The Clerk is aware that a more detailed document is required and it is understood that such a document relating to the council's Internal Control Procedures is to be presented to the council during 2017/18. For councils where the Clerk is the only officer with knowledge of all of the financial and governance procedures involved in the running of the council, it is deemed to be good practice for the processes involved in the Clerk's principal duties to be documented. Then, in the event of the unexpected absence of the Clerk for any reason, such documentation provides the basis for the continuation of the workings of the council.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● If the council does not currently document the inspections it undertakes, it may wish to ask the insurers whether this should be done from either an insurance or a legal Health and Safety point of view. If the council does document its inspections they should be provided to audit for review. ● When the Clerk has documented the council's routine financial and governance procedures they should be approved by council and maintained as a live document and updated when necessary.
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><u>Adequate budgetary process</u></p> <p>Findings</p> <p>The council prepared an annual budget in support of its precept.</p> <p>Budget monitoring reports have not been prepared during the year as the Clerk received insufficient financial information when the records were handed over.</p> <p>The year-end balance at 31/03/17 is £13,172. This comprises an earmarked capital fund of £6,000 and a general reserve of £7,172. The general reserve represents 190% of the 2107/18 precept and is, as a percentage considered to be a high working balance to maintain.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Budget monitoring reports should be provided to council on a quarterly basis for review and approval. ● The council should consider whether it wishes to earmark further funds for future projects.

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 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>Apart from the precept, income received during the year included a VAT refund, Yorkshire LCA Model Agreement, NYCC grass cutting, Locality funding, Cluster funding, Transparency funding and a small amount of bank interest. Documentation has been seen in support of all council income.</p> <p>The council has not received any cash income during the year.</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 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><u>Adequate payroll controls</u></p> <p>Findings Both of the council's Clerks employed during the year have contracts of employment with clear terms and conditions.</p> <p>Salaries paid during the year agree to the contracts of employment.</p> <p>It was noted, however, that minute number 69/16, in September, in respect of the current Clerk's pay is incorrect. The rate of pay and spinal column point quoted should be in accordance with the contract issued. A record is kept in a note book of hours worked by the Clerk. This record, however, has not been authorised by a member of the council. It is acknowledged that the hours worked and paid by the council are recorded</p>

		<p>on a payment document included with the invoices presented to council for payment.</p> <p>Both employees, during the year, have been subjected to PAYE and NI regulations.</p> <p>I confirm that the correct deductions have been remitted to HMRC.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The incorrect minute in September should be brought to the council's attention and formally corrected. ● Formal timesheets should be introduced by the council for staff to record their hours worked. These should be authorised each month by the Chairman and filed as a permanent council record with all other Council payroll information. ● 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.”
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 maintained as a schedule which identifies the values of each asset for both Insurance and Annual Return purposes. It is noted, however, that the schedule does not include provision for the deletion of assets which have been disposed of. A recommended format for Local Council's Asset Registers, including this provision, can be found on page 95 of the 2014 NALC/SLCC Governance and Accountability Guide for Local Councils.</p> <p>The basis of valuation of the assets for Annual Return purposes is in accordance with recommended practice. It is noted that the bins purchased in March 2017 have been included on the schedule at the price paid including VAT. As VAT is recovered by the council the value for Asset Register and Annual Return purposes should be the net price paid. It is further noted that the total valuation of £5,527 on the schedule does not include the bins added in March. This also applies to the figure in box 9 on the Annual Return.</p>

		<p>The Asset Register was presented to council in January 2017 and it was agreed which assets needed to be insured and the respective values.</p> <p>All assets, as shown on the schedule, are included on the council's insurance policy. It is noted that the new bins, however, have been insured for the gross price including VAT and not the net cost to the council.</p> <p>The council does not hold any investments.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The valuation of assets on the asset schedule should be the cost to the council net of VAT. ● The value of the bins, net of VAT, should be included in the asset schedule total and the revised total should be included on the Annual Return. ● Asset valuation for insurance purposes should be the cost of the asset net of VAT. ● The council should consider adopting the recommended format for its Asset Register.
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>Findings</p> <p>Bank reconciliations have been performed monthly since June 2016 and they are presented in the recommended format.</p> <p>Each of the reconciliations has been initialled as prepared by the Clerk but has not been signed as authorised by the Chairman.</p> <p>The reconciliations have been presented to council and minuted as such since September 2016.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As part of the council's financial control system the Chairman should review and authorise/sign the monthly

		<p>bank reconciliations.</p> <ul style="list-style-type: none"> ● Owing to the year-end reconciliation being amended, as per 1 above, the revised reconciliation should be presented to council for review and approval.
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><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p>Findings</p> <p>Following amendment, 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 a clear audit trail from underlying financial records to the year-end statements.</p> <p>The figure declared in box 4 includes untaxed working from home allowances received by the Clerk.</p> <p>The amendment of the cash book and year-end bank reconciliation means that the figures declared in boxes 7 and 8 are incorrect.</p> <p>The figure declared in box 9, fixed assets, does not include the cost price of the bins purchased in March 2017.</p> <p>The 2015/16 Internal Audit Report was presented to council in September 2016 and the matters raised in the report were discussed and the actions to be taken were agreed.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The figures declared in box 4, staff costs, and box 6, all other payments, require amendment to reflect the revised guidance in respect of the allocation of untaxed working from home allowances. ● The figure declared in boxes 7 and 8 require amendment to reflect the amended cash book and bank reconciliation statement. ● Box 9 requires amendment to reflect the amended asset schedule to include the bins purchased in March 2017 at cost price excluding VAT.

12	Has the council met its responsibilities as a trustee?	<p><u>Trustee responsibilities</u></p> <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><u>Correct maintenance of council minutes</u></p> <p>Findings The council's minutes are in a loose leaf format.</p> <p>All of the leaves comprising the minutes have been signed as a correct record and all leaves are consecutively numbered in accordance with the Local Government Act 1972.</p>

It is appreciated that the council has faced significant challenges since the resignation of the previous Clerk. Many financial procedures and control mechanisms were found to be sound and operating correctly but, also, there are also some significant shortfalls in the council's financial and governance arrangements. The new Clerk is aware that more work needs to be done in these areas and it is hoped that this report will facilitate the process of creating a good financial control and governance environment.

The hard work of the new Clerk since her appointment is acknowledged and her co-operation during the audit was much appreciated. It was noted that 6 payments made during May and July 2016 have not been reported to council.

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

27th April 2017

Public Sector Audit