

Public Sector Audit

Woodmansey 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 The cash book is maintained on spread sheets and is arithmetically correct. It provides sufficient analysis for the preparation of the Annual Return.</p> <p>A bank reconciliation is undertaken annually for the purpose of the council's accounts and the Annual Return.</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 The council's Standing Orders were last amended and approved by council on the 17th November 2014, min. 141.</p> <p>The council's current Financial Regulations are dated January 2006 and were last updated and approved in March 2004. It is noted that Financial Regulation 4.3 identifies the Responsible Financial Officer (RFO) as a cheque signatory. This is not the case however and Financial Regulations should be amended to reflect this.</p> <p>During 2015 NALC revised its Model Standing Orders to acknowledge that the introduction of the Public Contracts Regulations 2015 impacts on all parish and town councils. The Regulations apply whenever a council procures a contract with a value in excess of £25,000 (net of VAT). The council must advertise the contract opportunity on the Contracts Finder website (www.gov.uk/contracts-finder) irrespective of wherever else it may be advertised.</p> <p>NALC also revised its Model Financial Regulations in 2016 to reflect these changes in the contracting arrangements for the supply of goods and services.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should adopt the 2016 revised NALC Model Financial Regulations which have been amended to

	<p>reflect changes in the contracting arrangements for the supply of goods and services. They should also be amended to delete the RFO as a cheque signatory.</p> <ul style="list-style-type: none"> ● The council should update its Standing Orders to the revised 2015 NALC Model to reflect the changes in procurement legislation.
<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>	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have reviewed all council payments to ensure that there is a fully approved and authorised invoice, the payment appears in the bank account and expenditure has been reported to council.</p> <p>I have examined expenditure to determine that, where appropriate, the council has sought competitive contracts/quotations.</p> <p>VAT on payments up to 31st January 2017 has been identified, recorded and reclaimed. It was noted, however, that the Insurance Premium Tax of £184.98 has been included in the VAT column of the cash book and subsequently reclaimed from HMRC.</p> <p>All S.137 expenditure has been reviewed to ensure that it is within the statutory limit and is appropriate.</p> <p>I have examined all of the council's cheque stubs and confirm that the two signature rule has been observed in all cases.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Only VAT, and no other forms of taxation, incurred by the council can be included on the VAT return and reclaimed from HMRC. ● As the council holds or uses personal information about the public, employees or other people, it is legally obliged to protect that information. The Data Protection Act 1998 requires every organisation that is processing personal information to register with the Information Commissioners Office (ICO), unless they are exempt in respect of crime and taxation purposes. The council should, therefore, ensure that it is registered with the ICO and has paid the standard registration fee of £35.00.

	<ul style="list-style-type: none"> ● It should never be assumed that registration for VAT purposes means that all 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.
<p>4</p> <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>A review of the minutes did not identify any unusual financial activity.</p> <p>The council maintains a Risk Register in the form of a schedule. It covers financial management, the employment of staff, council meetings and consultations, street lighting, play areas and damage to council owned assets. Also, a members' Code of Conduct has been adopted. The register was reviewed and approved by council on the 18th January 2016.</p> <p>The council has prepared documents which identify invoice handling procedures and end of year accounts activities but all other financial control procedures have not been documented.</p> <p>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>Monthly inspections of the playgrounds on Normanby Avenue and King Street are undertaken by the Beverley Round Table and quarterly maintenance inspections of play equipment are undertaken by Wicksteed Ltd. Annual inspections are also undertaken by ROSPA. The inspections are noted on the council's website and any corrective action found to be necessary is authorised and minuted.</p> <p>It is noted, however, that other council assets such as street furniture, bus shelters and the war memorial are not routinely inspected.</p> <p>The council's various electronic documentation is stored on cloud using "Dropbox" on the council's web page and on a separate hard drive.</p>

	<p>Dropbox is an American based facility and it is the Information Commissioner's view is that if the data is not held in the UK it is not deemed to have adequate data protection standards.</p> <p>The UK Government has also published a document on implementing cloud security principals which states: <i>"The locations at which consumer data is stored, processed and managed from, must be identified so that organisations can understand the legal circumstances in which their data could be accessed without their consent. Public sector organisations will also need to understand how data handling controls within the service are enforced, relative to UK legislation. Inappropriate protection of consumer data could result in legal and regulatory sanction or reputational damage."</i></p> <p>I have reviewed the council's insurance policy and confirm that the limits of indemnity provided by the policy are adequate. It is noted, however, that value of office equipment covered by the policy does not include the council's laptop and printer.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The Risk Register should be reviewed for continued relevance and approved by council each financial year. ● The council should arrange for the routine inspection of its assets such as street furniture, bus shelters and the war memorial. The inspections should be documented and any corrective action found to be required should be noted and remedial works undertaken as necessary. ● The council should re-examine its electronic storage arrangements to ensure that it fully meets regulatory and legislative requirements. ● The value of office equipment covered by the insurance policy should be increased to include the council's laptop and printer. ● The council may wish to consider documenting its routine financial and governance procedures to ensure the seamless continuation of these procedures in the event of the unexpected absence of the Clerk.
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<p>5</p> <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's precept of £17,955 for 2016/17 was received in two equal instalments of £8,977.50 in April and September 2016.</p> <p>Budget monitoring reports were submitted to council in June and October 2016 and March 2017. The reports identify actual receipts and payments compared to budgeted figures.</p> <p>As at the 31st March 2017 the council held a general reserve of £20,500 and earmarked reserves totalling £24,500. Owing, in part, to the high level of grant income received during the year the council's general reserve exceeds the current year's precept. It represents, however, 73% of the 2017/18 precept and is considered to be both reasonable and prudent.</p>
<p>6</p> <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</p> <p>Apart from the annual precept the council received grant income from various sources, a VAT refund and a small amount of bank interest. No cash income was received during the year.</p> <p>Documentation has been received in respect of all income and I have agreed this to the cash book.</p>
<p>7</p> <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</p> <p>The council does not maintain a petty cash system.</p> <p>All sundry expenses are reimbursed via the normal payments system and reported to council together with all other expenditure.</p>

<p>8</p> <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</p> <p>The Clerk/RFO is the council's only employee. The Clerk's contract of employment contains clear terms and conditions. However, as at the year-end, the contract had not been signed by the council. It is understood that this is to be done at the council meeting on the 19th April 2017.</p> <p>Various expenses and allowances are identified in the contract but the change to paying these quarterly rather than monthly has not been minuted.</p> <p>I have agreed all salary payments and quarterly allowances to the contract and subsequent NJC pay award.</p> <p>Overtime has been paid in accordance with the contract but as at the year-end the overtime calculation sheets had not been authorised by the council. These have now been signed off by the Chairman.</p> <p>The Clerk's salary has been subjected to PAYE and National Insurance regulations. I have checked that all deductions have been correctly paid to HMRC and noted that Employer's NI contributions of £7.46 in respect of November 2016 had not been paid at the time of the audit. The Clerk has confirmed, however, that she picked this up in March 2017 and will remit the payment to HMRC in 2017/18.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council must ensure that it signs contracts of employment at the commencement of the employment of staff. ● The payment of allowances quarterly should be authorised and minuted. ● Overtime calculation sheets should be signed as authorised by the Chairman each time an overtime payment is made. ● 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
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		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>Appropriate recording of assets</p> <p>Findings</p> <p>The council maintains an Asset Register in the form of a schedule which identifies the assets held by the council, their value and the method of valuation.</p> <p>The Asset Register was presented to council for review and approval on the 20th March 2017.</p> <p>Additions during the year have been added to the register for the purpose of the Annual Return valuation. It is noted, however, that the register does not include provision for the deletion of assets which have been disposed of. A recommended format for Local Councils' 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>Recommendation</p> <ul style="list-style-type: none"> ● The council should consider adopting the recommended format for its Asset Register.
10	Were bank reconciliations performed on a regular and timely basis? Has a year-end reconciliation been performed and balanced? Have all bank reconciliations been reviewed by an appointed member and evidenced as such?	<p>Adequate bank reconciliations</p> <p>Findings</p> <p>The council maintains two bank accounts, a Community (current) account and a Business Premium (saver) account.</p> <p>A full bank reconciliation, which includes both accounts, is undertaken annually for the purpose of the council's accounts and the Annual Return.</p> <p>The reconciliation as at the 31st March 2017 does not contain any unusual or balancing figures.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As part of the council's financial control systems regular bank reconciliations should be performed during the year. For a council the size of Woodmarsey they should be prepared at least quarterly, presented to council for review and approval and minuted as such.

		<ul style="list-style-type: none"> All bank reconciliations should be signed off and dated by the preparer and presented to council and authorised and dated by the Chairman. The minutes should record the approval of the reconciliations.
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>Correct accounting basis and previous Internal Audit Report actioned</p> <p>Findings 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>The draft Accounting statement submitted to audit has been agreed with the exception of box 4, Staff Costs, and box 6, All Other Income, to reflect the revised guidance received.</p> <p>The previous year's Internal Audit Report was presented to and approved by council on the 16th May 2016.</p> <p>Recommendations</p> <ul style="list-style-type: none"> Boxes 4 and 6 of the Accounting statement on the Annual Return must be amended to reflect the revised guidance received.
12	<p>Has the council met its responsibilities as a trustee?</p>	<p>Trustee responsibilities</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	<p>Are council's minutes maintained in accordance with legislative requirements?</p>	<p>Correct maintenance of council minutes</p> <p>Findings The council minutes are maintained in loose a leaf format.</p> <p>They have been consecutively numbered throughout the year and each page comprising the minutes has been signed and dated by the person presiding at the meeting in accordance with the Local Government Act 1972 (schedule 12.4(1 & 2)).</p>

Executive Summary

The governance arrangements and internal financial control environment of the council require some attention.

The adoption of the above recommendations will serve to enhance and strengthen the systems, procedures and governance arrangements the council already has 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.

The co-operation and assistance of the Clerk of the council in the completion of this audit was much appreciated.

Richard Dixon

Public Sector Audit

20th April 2017

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