

# *Public Sector Audit*

## **Lissett and Ulrome Parish Council**

***Internal Audit Report for the year ended 31 March 2016***

# *Public Sector Audit*

## Lissett and Ulrome Parish Council

### **Internal Audit Report for the year ended 31 March 2016**

#### 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

	<b>Tests Performed</b>	<b>Findings and Recommendations</b>
1	Have appropriate books of account been properly maintained throughout the year?	<p><b>Findings</b></p> <p>The cash book is maintained on a spread sheet and is arithmetically correct.</p> <p>The analysis of expenditure, however, requires some adjustment to facilitate the provision of the information required for the Annual Return.</p> <p>Checking and verification of the cash book has been undertaken periodically throughout the year by reconciliation to the business account bank statements. Formal bank reconciliations in the required format are not, however, undertaken and submitted to council for approval. A recommendation is contained in section 10 below.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● Travelling expenses, bridge tolls, etc. should be analysed under Clerk's expenses for the purpose of completion of the Annual Return.</li> </ul>
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><b>Findings</b></p> <p>The council has formally reviewed and amended its Standing Orders and Financial Regulations during the year.</p> <p>The revised Standing Orders and Financial Regulations now take account of recent changes in procurement legislation and contracting arrangement for the supply of goods and services.</p> <p>Standing Orders were reviewed and adopted by council on the 28th October 2015, min 14.</p> <p>Financial Regulations were reviewed and adopted by council on the 30th March 2016, min 13.a.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● Standing Orders and Financial Regulations should be reviewed for continued relevance and formally approved by council annually.</li> </ul>

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><b>Findings</b></p> <p>I have tested all payments made by the council during the year. All payments were appropriate and have been checked to the bank statements and minutes for appropriate council authorisation.</p> <p>I have reviewed the payments for completeness, accuracy, correct year of account, compliance with Financial Regulations and classification within the council's accounts.</p> <p>I have found no expenditure for unusual items or items which are ultra vires.</p> <p>All VAT has been correctly recorded and reclaimed from HMRC for the current year.</p> <p>A separate account has been maintained for s.137 expenditure and expenditure is well within the statutory limit of £7.36 per parish elector.</p> <p>Cheque stubs have been examined for compliance with the two signature rule. Some cheque stubs were found to have been initialled by only one signatory and others have not been initialled by either signatory. The Clerk has provided copies of all paid cheques, however, which confirms that they have been signed by two cheque signatories.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● All cheque stubs should be initialled by both signatories to signify agreement of the stub to the cheque as well as the supporting documentation provided at the time of signing.</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> <li>● 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.</li> </ul>
---	---	--

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><b>Findings</b></p> <p>The council's Risk Assessment schedule was reviewed and approved by council at the meeting held on the 17th February 2016, min. 12.</p> <p>The schedule covers the following risks: Finance, Management, Employees, Volunteers and Contractors, Liabilities, Council Members, Assets and general risks covering Health and Safety, council policies and legal requirements.</p> <p>It was noted that Health &amp; Safety and Freedom of Information need reviewing and that a complaints procedure and home working policy are both needed.</p> <p>The council's insurance cover has been reviewed and the limits of indemnity are adequate.</p> <p>All of the council's assets have been included in the policy.</p> <p>The renewal of the policy was approved at the council meeting held on the 30th March 2016.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The Health &amp; Safety Policy and Freedom of Information Policy should be reviewed and a complaints procedure and home working policy drawn up.</li> <li>● All new policies should be reviewed and adopted by council.</li> <li>● All of the council's Risk Assessments should be reviewed for continued relevance and approved by council annually.</li> </ul>
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><b>Findings</b></p> <p>I have reviewed the annual budget that was adopted in setting the precept for 2015/16 and confirm that it agrees to the precept levied by the council.</p> <p>The Council Tax Authority's precept remittance advice agrees to the income received in the cash book.</p>

	<p>Are reserves adequate and appropriate?</p>	<p>Budget monitoring reports were presented to council for 31st July, 30th September, 31st December and 31st March. The minutes do not, however, confirm approval of the reports.</p> <p>At the 31st March 2016 the council held reserves of £12,049. This total comprises earmarked reserves of £9,282 and a general reserve of £2,767 which is considered to be both adequate and prudent.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The minutes should record the council's approval of the budget monitoring reports.</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><b>Findings</b></p> <p>In addition to precept and grant income, the council received a VAT refund in respect of 2014/15, and the refund of an overpayment to SLCC.</p> <p>All income recorded in the cash book is supported by appropriate documentation.</p> <p>No cash income was received.</p> <p>The council does not have, or need at present, a scale of charges.</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><b>Findings</b></p> <p>The council maintains a petty cash float. At the start of the year the cash balance was £118.42. Petty cash expenditure of £106.98 during the year reduced the balance to £12.26 at the year end.</p> <p>A detailed record of petty cash expenditure is maintained by the Clerk and I have agreed this record to the petty cash vouchers and receipts supplied to audit.</p> <p>The petty cash float was not reimbursed during 2015/16 and the expenditure during the year has not been reported to council.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The petty cash expenditure should be reported to council periodically throughout the year, perhaps quarterly, and reviewed and approved in the normal way.</li> </ul>

		<ul style="list-style-type: none"> <li>● The petty cash should be reconciled periodically to ensure that no errors have occurred.</li> </ul>
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><b>Findings</b></p> <p>The Clerk has a contract of employment with clear terms and conditions. The contract, however, should have been issued at the commencement of employment and not at the end.</p> <p>The contract states the incorrect salary for the clerk's Spinal Column Point, but the correct rate per hour has been applied to the hours worked during the year.</p> <p>The contract states that the Clerk will be paid "a sum to take into account the use of space, lighting, heating and electricity due to working from home". The weekly rate paid, however, has not been minuted.</p> <p>I have agreed all salary payments to the monthly time sheets and appropriate rate per hour.</p> <p>Not all time sheets have been signed or initialled as authorised.</p> <p>The Clerk's remuneration has been subject to PAYE and NI regulations and correct payments have been made to HMRC each month.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● A contract of employment must be issued to employees at the commencement of employment.</li> <li>● The correct salary per the relevant NJC Spinal Column Point must be shown in the contract of employment.</li> <li>● The weekly allowance in respect of the Clerk working from home must be either stated in the contract of employment or otherwise authorised by the council and minuted.</li> <li>● All time sheets should be signed or initialled as being authorised.</li> </ul>
9	Is the asset and investment register complete and accurate and reviewed on a regular basis?	<p><b>Findings</b></p> <p>The council maintains an asset register which identifies the council's assets, including location, date acquired (where known) and valuation. A new shed was purchased for Rickby Hall during the year and this has been added to the register.</p>

		<p>The assets have been valued at cost in accordance with the guidelines on the Annual Return.</p> <p>The asset register was presented to and approved by council on the 30th March 2016, min. 7.</p> <p>The total value of assets shown on the asset register agrees to the value of assets declared in box 9 of the Annual Return.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The asset register should be updated and reviewed and approved by council annually.</li> </ul>
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><b>Findings</b></p> <p>Checking and verification of the cash book has been undertaken periodically throughout the year by reconciliation to the business account bank statements. Formal reconciliations in the recommended format (as used for the year end reconciliation) are not, however, completed.</p> <p>The bank balances are recorded in the minutes for information purposes or emailed to members in advance of the meeting.</p> <p>A formal year end reconciliation using the pro forma approved by the external auditor, has been prepared.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● Formal reconciliations, in the recommended format (as used for the year end reconciliation), should be prepared monthly and submitted to council for review and approval. They should be signed and dated by both the Clerk and the Chairman.</li> </ul>
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><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>There is an audit trail from underlying financial records to the year-end statements.</p> <p>The guidance note to box 4, Staff Costs, on section 2 of the Annual Return identifies that staff costs must</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>include "employment expenses". The 2014 NALC/SLCC Governance and Accountability Guide confirms that employment expenses include "mileage, travel, etc."</p> <p>The figure of £2,788 in box 4 of the Annual Return does not, however, include the clerk's travel expenses and the working from home allowance which is also an employment expense.</p> <p>An Internal Audit Report was not received in respect of 2014/15.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Box 4 on section 2 of the Annual Return must be amended to include the working from home allowance and travel expenses incurred by the Clerk on behalf of the council.</li> <li>● Box 6 on section 2, All Other Payments, of the Annual Return must also be amended to reflect the Clerk's travel expenses being included in box 2.</li> </ul>
12	Has the council met its responsibilities as a trustee?	<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	Are council's minutes maintained in accordance with legislative requirements?	<p><b>Findings</b></p> <p>The minutes presented to audit are in a loose leaf format and cover the whole year.</p> <p>Each page has been consecutively numbered throughout the year in accordance with Schedule 12 .41(2) of the Local Government Act 1972.</p> <p>The final page of each meeting's minutes has been initialled by the Chairman. Each individual page of the minutes has not, however, been initialled.</p> <p>The individual minutes of each meeting are numbered one onwards rather than consecutively throughout the year.</p>

		<p><b>Recommendations</b></p> <ul style="list-style-type: none"><li>● In accordance with the provisions of Schedule 12.41(2) of the Local Government Act 1972, the minutes of any meeting of the council must be signed by the person presiding thereat and each page comprising the minutes must be separately initialled.</li><li>● For the avoidance of any possible confusion it is common practice for council minute numbers to be referenced consecutively throughout each year and the council may wish to consider numbering its minutes in this way.</li></ul>
--	--	--

Executive Summary

The accounts and governance arrangements of the council are generally sound and the co-operation of the Clerk of the council in the completion of this audit was much appreciated.

The internal financial control environment within the council has improved considerably during the year and the adoption of the above recommendations 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 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*

28<sup>th</sup> April 2016

*Public Sector Audit*