

Internal Audit Yorkshire
For Town & Parish Councils



Salterforth Parish Council

Internal Audit Report

2018/19

Date Issued: 19 June 2019

Status: Final

This internal audit report is based upon the Practitioners' Guide to Governance and Accountability in Local Authorities.

Internal audit is an on-going function, undertaken regularly throughout the financial year, to test the continuing existence and adequacy of the authority's internal controls. It results in an annual assurance report to members designed to improve effectiveness and efficiency of the activities and operating procedures under the authority's control. Managing the authority's internal controls is a day-to-day function of the authority's staff and management, and not the responsibility of internal audit.

Internal audit does not involve the detailed inspection of all records and transactions of an authority in order to detect error or fraud.

[Source 'Governance and Accountability for Small Authorities in England Practitioners Guide 2018']

Background

Authorities in England operate within a legal framework which provides them with the necessary statutory powers and authority to deliver local public services. Authorities and their clerks/chief executives/RFOs should always be aware of, and have regard to, the legal power they are exercising when deciding on any action including to spend public money.

The proper practices for smaller authorities (Town and Parish Council's) are included in the Governance and Accountability for Smaller Authorities [March 2018], a Practitioners Guide. Smaller authorities in England must complete an Annual Return and an Annual Governance Statement to the public. The Annual Return must be submitted to the external auditor within the statutory deadline of 30 June.

Purpose of Internal Audit

Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective. The internal audit function must be independent from the management of the financial controls and procedures of the authority which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the authority.

The objectives for Internal Audit Yorkshire are to undertake a programme of work to help discharge the statutory internal audit responsibilities and form a judgement of the effectiveness of internal control arrangements during the financial year. The key systems and processes will range from:

- Proper book-keeping including the cash book; bank reconciliations
- Standing orders and financial regulations;
- Payment controls; Income controls;
- Budgetary controls; Petty cash procedure;
- Payroll controls; Asset control;
- Year-end procedures; and risk management arrangements.

The list is not exhaustive and can vary from each authority who can agree a specific programme of work with its internal auditor provider each year.

Scope of Work

This report covers findings from the visit in June 2019, which covered the internal audit from the period of 01 April 2018 to 31 March 2019. We would like to thank the Acting Clerk Carole Singleton for her help and assistance during the audit.

FINDINGS

Matters arising from the 2017/18 External Audit

We have noted that due to the ill health, the former Clerk and RFO has retired. The Council has faced some challenges recovering council documentation. The sudden retirement of their Clerk and RFO had impacted on the failure of the authority to submit the Annual Return and Accounts for the financial year 2017/18.

The External Auditors issued a Report in the Public Interest. The Council were not required to resubmit the annual return for 2017/18 as the accounts had closed, however they were required to calculate the 2017/18 figures for use as prior year comparatives.

We can confirm that the Council have provided the year end balances for the period ending 31 March 2018 as required on section 2 of the Annual Return and in accordance with the recommendations set out as per Report in the Public Interest.

Annual Return

We can confirm that the Annual Internal Audit Report in the Annual Return for the year ending 31 March 2019 has been signed off as required by local authorities. There are a number of boxes that have been ticked 'No'. The weaknesses identified are contained within this internal audit report.

Book-Keeping and Preparation of Accounting Statements

The Council's receipts and payments accounts were reviewed for 2018/19 against the bank statements provided. All expenditure payments reconciled with the bank statements.

Bank Reconciliations

Bank reconciliations should be performed on a regular basis to cover the authority's bank accounts. Reconciling the cash book to bank statements should be reported to members, and the full reconciliation made available for their scrutiny each time it is done. Approval of the bank reconciliation by the authority is not only good practice but it is also a safeguard for the RFO and may fulfil one of the authority's internal control objectives.

A review of the accounts confirmed that bank reconciliations have not been carried out on a regular basis or reported to the Council. A year-end bank reconciliation was produced. This was agreed with the bank statement at 31 March 2019.

Recommendation 1: The Bank Reconciliations to be carried out on a regular basis and reported to Council.

Recommendation 2: The Council to appoint a member, other than a cheque signatory to verify the bank reconciliation statements for the accounts.

Standing Orders and Financial Regulations

The first step in establishing a financial system is to identify the general rules applicable for the authority to carry out its business. These are set out in the authority's Standing Orders, Financial Regulations and other internal instructions.

A review of the Council minutes confirmed that the authority did not adopt a set of Standing Orders or Financial Regulations. Local authorities are required to approve these documents at least on an annual basis at the Annual Meeting of the Council or as required.

Recommendation 3: The Council to adopt and amend [as required to meet the business needs] the model Financial Regulations produced by the National Association of Local Councils [NALC]

Recommendation 4: The Council to adopt and amend [as required to meet the business needs] the model Standing Orders produced by the National Association of Local Councils [NALC]

Payment Controls and Expenditure Testing

The payments process should always be carried out in accordance with the authority's Financial Regulations. Cheques and other payments should only be released once confirmation has been obtained that adequate funds are available. All payments made since the last meeting should be reported to the next authority meeting.

The Council have not identified any specific control procedures for any payments to be made. A review of the minutes confirmed that payments on account were presented to the Council meeting for approval. This was subsequently recorded in the minutes as a resolution of the meeting. The minutes confirmed that new items of expenditure were authorised by the authority in advance of any financial commitments entered into by the authority.

It was noted that from my selective check all cheque counterfoils had not been initialled by at least 2 authorised signatories that the cheque counterfoils had not been retained in the chequebooks.

Recommendation 5: To include a payments process within it's Financial Regulations. This recommendation may be considered alongside recommendation number 3.

Recommendation 6: To retain the chequebook counterfoils and ensure that they are initialled by two authorised signatories who sign the cheques.

Income controls including Precept

The precept of £14,000 was transferred into the Council's bank accounts from the billing authority Pendle Borough Council. The Council does not receive any income in addition to the precept.

VAT

Section 33 of the VAT Act 1994 allows local authorities such as a parish and town councils, to recover the VAT they incur in the course of performing their public duties. No VAT records were provided during the course of the audit to ascertain if VAT had been reclaimed for the local authority.

Recommendation 7: To complete the VAT claim for the financial year 2018/19 in accordance with section 33 of the VAT Act 1994.

Recommendation 8: To establish if VAT has been recovered for previous years and reclaimed for the local authority in accordance with section 33 of the VAT Act 1994.

Budgetary Controls and Financial Health

The preparation of an annual budget is one of the key statutory tasks to be undertaken by an authority, irrespective of its size. The budgets purpose is to assist the authority in setting the precept for the year, [subject to the authority's Financial Regulations] it gives the clerk and other officers overall authority to make spending commitments in accordance with the plans approved by members; and it provides a basis for monitoring progress during the year by comparing actual spending against planned spending.

The Council approved the precept at the monthly meeting of the local authority on the 31st January 2018. The minutes confirm that although a discussion took place on the precept to be levied, no budget documents were presented to members.

There was no progress monitored against the budget during the course of the financial year.

Guidelines stipulate that a council's un-earmarked reserves usually lie between 25% to 75% of annual expenditure. The Council's closing balance at the year-end is £11,586.86. This figure does not include any earmarked reserves or committed expenditure. This represents over 75% of general reserves which falls just slightly outside our good practice guidelines.

Recommendation 9: The Council to submit an annual budget in advance to members for the next financial year to underpin and support the budget precept request for 2020/21.

Payroll Controls

There is no signed contract of employment for the Clerk who was also the Responsible Financial Officer [RFO]. We understand the Clerk has now retired. We are unable to test that the salary paid is consistent with the rates agreed by the Council. We were unable to test if the Tax and NI were paid within the expected parameters. We noted that payments for the Clerk and HMRC were stopped after November 2018. We noted that the Acting Clerk has contacted HMRC to obtain confirmation that the employer contributions have been made to HMRC.

Recommendation 10: To ensure that Employer Contributions are made to HMRC for the retiring Clerk/RFO

Asset Register

An asset register is the starting point for any system of financial control over assets as it facilitates the effective physical control over assets; provides the information that enables the authority to make the most cost effective use of its capital resources and ensures that no asset is overlooked or underutilised and is therefore used most efficiently. Most assets should be first recorded in the asset register at their actual purchase cost. In some cases the purchase cost may not be known at acquisition, therefore a nominal fee of £1.00 should be entered. The date of acquisition, location and disposal should be included within the asset register.

The fixed asset register was provided during the course of the audit. A number of items listed in the register did not include the date of acquisition or the purchase cost/nominal fee. The register did not record the total value of fixed assets held at 31 March 2019 which was calculated at £15,004.95.

We were unable to sample test the ownership and existence of the assets listed in the asset register. We noted that the value of the fixed assets has increased by £2,655.93 from the comparative figure supplied in Box 9 of the Annual Return for the period ending 31 March 2018. However we were not provided with a copy of the asset register for the period ending 31 March 2018 to identify the increase.

Recommendation 11: That the asset register is updated to include the date of acquisition, purchase cost, disposal (if applicable), replacement/insurance valuation and total value of the fixed assets.

Risk Management Arrangements

Risk management is the process whereby authorities methodically address the risks associated with what they do and the services which they provide. Risk management is an ongoing activity that comprises four elements: identifying risks; assessing risks; addressing risks; and reviewing and reporting.

Part of the risk management arrangements should include the back-up of the computer systems and files and can easily be done by the exchange of memory sticks, hard drive or an icloud system between the Clerk and Chairman (or other nominated Councillor). During the audit we have not been able to confirm what the IT arrangements are in place or if the Council has a portable hard drive system. The Council failed to review the risk management arrangements during the course of the financial year. A risk assessment document should be reviewed annually by the Council.

Recommendation 12: To collate a risk assessment register identifying the risks, assessing the risks, addressing the risks and to subsequently report this to the Council.

Recommendation 13: To consider the IT arrangements in place for the Council and consider back-up options and ensure that all the arrangements comply with GDPR.

All employers are required by law to take out employers' liability insurance and decide the appropriate level of fidelity guarantee insurance. All cover should be risk based and kept under constant review to make sure it adequately reflects changes in circumstances.

Although the Council had adequate insurance cover in place during the course of the financial year which was confirmed by the insurance payment made to Zurich, we were unable to review the insurance policy documents to ascertain the level of cover.

Recommendation 14: To obtain the adequate level of insurance cover for all council assets, including employers public liability and fidelity guarantee cover.

Data Transparency Code – Council Website

The Council's website is an more important method of communication with residents as well as being part of the statutory requirement for the publication of Councillors register of interests, more frequently referred to as Disclosable Pecuniary Interests (DPI's) and the statutory requirement regarding the publication of the Annual Returns and the Transparency Code. This requires smaller authorities with a turnover below £25,000 pa to publish a lot more information on its website which came into effective from 1 April 2015. Agendas and Minutes must also be published within the timescales set by the Code.

The Council's website address is www.salterforthparishcouncil.uk. Although it is not a requirement for the website address to indicate .gov.uk, it is recommended best practice that council websites are identified with the .gov within the domain name.

The current website is not complying with the Data Transparency Code and is very sparse with the information that is available.

The new GDPR regulations require councillors to have an official council email address for council purposes. The Council must ensure that they have adopted the relevant GDPR policies that regulate the processing of data in compliance with the new legislation.

Recommendation 15: That the Council upgrades the existing website to ensure it is accessible to residents and that content is uploaded to comply with the Data Transparency Code.

Recommendation 16: That all councillors are provided with an official .gov email address for Council business to comply with the GDPR regulations.

APPENDIX 1 - ACTION PLAN

No	Recommendation	Responsibility	Timescale
1	The Bank Reconciliations to be carried out on a regular basis and reported to Council.		
2	The Council to appoint a member, other than a cheque signatory to verify the bank reconciliation statements for the accounts.		
3	The Council to adopt and amend [as required to meet the business needs] the model Financial Regulations produced by the National Association of Local Councils [NALC]		
4	The Council to adopt and amend [as required to meet the business needs] the model Standing Orders produced by the National Association of Local Councils [NALC]		
5	To include a payments process within it's Financial Regulations. This recommendation may be considered alongside recommendation number 3		
6	To retain the chequebook counterfoils and ensure that they are initialled by two authorised signatories who sign the cheques		
7	To complete the VAT claim for the financial year 2018/19 in accordance with section 33 of the VAT Act 1994.		
8	To establish if VAT has been recovered for previous years and reclaimed for the local authority in accordance with section 33 of the VAT Act 1994.		
9	The Council to submit an annual budget in advance to members for the next financial year to underpin and support the budget precept request for 2020/21.		

- 10 To ensure that Employer Contributions are made to HMRC for the retiring Clerk/RFO
- 11 That that asset register is updated to include the date of acquisition, purchase cost, disposal (if applicable), replacement/insurance valuation and total value of the fixed assets.
- 12 To collate a risk assessment register identifying the risks, assessing the risks, addressing the risks and to subsequently report this to the Council.
- 13 To consider the IT arrangements in place for the Council and consider back-up options and ensure that all the arrangements comply with GDPR.
- 14 To obtain the adequate level of insurance cover for all council assets, including employers public liability and fidelity guarantee cover.
- 15 That the Council upgrades the existing website to ensure it is accessible to residents and that content is uploaded to comply with the Data Transparency Code.
- 16 That all councillors are provided with an official .gov email address for Council business to comply with the GDPR regulations.