

Public Sector Audit

Wrawby Parish Council

Internal Audit Report for the year ended 31 March 2022

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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 2022. 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.

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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

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The findings of the audit are summarised below

	Test	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 council's accounts are maintained on spreadsheets which record receipts and payments during the year.</p> <p>The cash book is balanced as at the 31st March 2022 and a year-end bank reconciliation confirms that the cash book and bank balances are in agreement.</p> <p>I have, in past years, queried the status of the Wrawby Playing Field Association (WPFA) with the previous Clerk and not received a response. Following raising the same issue this year with the new Clerk, it has become apparent that the WPFA is a separate entity to the council, with it's own Committee. In view of this the council is not able to put WPFA expenditure through it's accounts.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should cease to incur expenditure on behalf of the WPFA, and put no further direct expenditure through it's accounting records.
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</p> <p>The council approved its Standing Orders and Financial Regulations at the council meeting held on the 10th November 2021. They are both the latest NALC Models.</p> <p>The Government has announced revised thresholds in respect of tendering for public contracts, which came into effect on the 1st January 2022; the NALC Model, however, has not yet been updated.</p>

		<p>Recommendation</p> <ul style="list-style-type: none"> ● Standing Orders should be amended in the current financial year to take account of the Government's revised procurement thresholds.
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</p> <p>I have tested all payments to ensure that they are fully approved and authorised, the payments appear in the cash book and they have been reported to council. All payments made during the year have been correctly recorded and reported to council.</p> <p>I have reviewed all payments for completeness, accuracy, the correct year of account, classification in the council's accounts and the correct treatment of VAT. The VAT return has been submitted to HMRC for 2021/22 and I have agreed the claim to the cash book.</p> <p>Direct expenditure has been incurred in respect of the Wrawby Playing Field Association. As the Association is a separate entity to the council, this direct expenditure should not have been incurred. The council is able to provide grants to the WPFA under the powers contained in s.137 of the 1972 Local Government Act. The Act states, inter alia, "a local authority shall not, by virtue of this subsection, incur any expenditure unless the direct benefit accruing to their area or any part of it or to all or some of the inhabitants of their area will be commensurate with the expenditure to be incurred." This means that a council should not spend a disproportionately large amount on something from which it gains no or very little direct benefit. For example, spending the whole of the council's allowance under the section 137 which amounted to, say, £10,000 for the benefit of two people would be unlikely to be confer commensurate benefit to the expenditure incurred.</p> <p>As direct expenditure has been incurred by the council on a separate legal entity it is not allowed to recover the VAT element of such expenditure under the provisions of s.33 of the 1994 VAT Act. A Parish Council is known as a section 33 body. This means the council is covered by section 33 of the VAT Act 1994 which allows</p>

local authorities and similar bodies, such as a Parish Council, to only recover the VAT it incurs in the course of performing its public duties.

Since the commencement of the council's new Clerk, the two-signature rule has been observed and evidenced by the cheque signatories initialling the cheque stubs to indicate agreement with the cheque and invoice/voucher seen at the time of signing.

As the council holds or uses personal information about the public, employees or other people, it is legally obliged to protect that information. The General Data Protection Regulation 2018 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 standard registration fee is £40.00 or £35.00 by Direct Debit.

Recommendations

- Expenditure (including its VAT element) incurred in respect of separate legal bodies to the council, should not be identified in the cash book for inclusion on the council's VAT reclaim.
- The council should notify HMRC that such expenditure has wrongly been included in its s.33 reclaims and seek advice on the correct way to correct this error.
- The council should decide whether it wishes to continue to support the WPFA by making appropriate grants to the Association in accordance with the powers it has under s137 of the 1972 Local Government Act. Due regard must be had, however, to the limitations of this section of the Act. If the council wishes to do this, a separate column in the cash book to identify such expenditure, will be required.
- The council should register with the ICO and pay the standard registration fee is £40.00 (or £35.00 if paid by Direct Debit).

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's Financial Risk Assessment was reviewed and approved by council on the 10th November 2021.</p> <p>The Clerk has provided the council's Financial Risk Assessment and General Risk Assessment for audit. The General Risk Assessment covers the following areas:</p> <ul style="list-style-type: none"> ➤ Members Code of Conduct, meetings, financial management, VAT, third party risks, loss of assets, safety for the Village Hall and playing field and legal liability as a result of asset ownership. The document is not dated and it is not known if it is up to date. <p>A PAT testing certificate dated 09/07/21 in respect of the Village Hall has been provided to audit. All items have been certified as "Good". The Clerk has confirmed that the previous test certificate, covering 2019/20, was destroyed upon receipt of the current certificate.</p> <p>I have seen no evidence that the council arranges an annual fire risk assessment for the Village Hall. The Clerk has confirmed that a new fire alarm panel has been fitted to the Village Hall and PAT testing was carried out in July 2021.</p> <p>The council contracted with a RoSPA approved company to inspect the Playing Field during the year. The council's Risk Assessment identifies that the Village Hall and playing field are inspected regularly and a record of the inspections is kept. No evidence of the regular inspection has been submitted to audit for review and verification.</p> <p>I have reviewed the council's insurance policy and the indemnity limits are adequate.</p> <p>The Clerk has confirmed that all electronic data is backed up approximately weekly onto a memory stick which is kept in a filing cabinet in a secure location. The council's computer and memory stick are both password protected.</p>
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		<p>Recommendations</p> <ul style="list-style-type: none"> ● The council's Financial Risk Assessment and General Risk Assessment documents should be dated and presented to council annually, reviewed for continued relevance and formally approved. ● If it does not already do so, the council should arrange for regular fire inspections of the Village Hall to be undertaken, documented and retained for audit and the Health & Safety Executive in the unlikely event of a fire taking place. ● The council should ensure that inspections of the Village Hall and other assets for which it is responsible are carried out regularly throughout the year, recorded and timely action taken to remedy any defects identified. The inspection documentation should be submitted to audit for review and verification purposes.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings A detailed budget was prepared for 2021/22.</p> <p>No budget monitoring reports have been presented to audit for 2021/22.</p> <p>The council's balances at the 31st March 2022 totalled £3,740. This represents 30% of the 2022/23 Precept and is considered to be low for a council the size of Wrawby.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Budget monitoring reports should be presented to council on at least a quarterly basis. ● The council should consider increasing its general balances in accordance with recommended practice detailed in section 5.32 of the 2021 NALC/SLCC Governance and Accountability Guide.

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 Apart from the Annual Precept the council also received a VAT refund in respect of 2020/21 and a very small amount of bank interest.</p> <p>No documentary evidence (remittance advice) was provided to audit in support of the Precept received from NLC or the VAT refund. I have agreed the VAT refund from HMRC to the previous year's cash book, however. One bank statement was provided to audit in support of a receipt of interest on the council's Reserve Account. Another receipt of interest recorded in the cash book on the 30th June 2021 for this account, however, was not supported by a copy of the respective bank statement.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● All documentary evidence in support of income received should be provided to audit for review and verification purposes.
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>Items that have been purchased by Council Members for village planting and other miscellaneous items have been reimbursed via the council's payments system.</p>
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings The council's new Clerk has received a contract of employment which contains 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>I have agreed all gross pay paid to the new Clerk to the contract of employment, the 2020/21 and revised 2021/22 NJC pay scales, and authorised overtime worked.</p> <p>The Clerk is subject to PAYE and NI regulations and statutory 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><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The council now maintains a formal Asset Register in the recommended format. The previous document which only recorded four figures: one of £5,622 described as "Historical", another of £251,655 for the Village Hall, one for two salt bins purchased the previous year and a total of assets held by the council, has now been replaced.</p> <p>New purchases during the year have been added to the register at the correct valuation, excluding VAT. The revised total of assets held on the 31st March 2022 is £252,213.66.</p>
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>The council's previous Clerk prepared three interim bank reconciliations in July, August and October 2021. The new Clerk commenced her employment in November 2021. A bank reconciliation statement was prepared up to the 5th March 2022, following the reconstruction of the cash book; a year-end reconciliation was also prepared.</p> <p>As a result of issues that have arisen at other Town and Parish Councils it is considered to be good financial management that the respective balances on the accompanying bank statements also be signed/initialled by the Chairman as evidence of the checking of the bank balances against the reconciliations.</p>

		<p>Three interim bank reconciliations were performed during the year and there are no unusual or balancing figures included.</p> <p>The year-end reconciliation has been separately documented for External Audit purposes. I have agreed the year-end reconciliation to the cash book, bank statements and the AGAR.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Bank reconciliations should be presented to council on at least a quarterly basis. ● The Chairman, or a nominated Council Member, should sign both the bank reconciliations and original bank statements as evidence of verification.
11	<p>Were Accounting statements prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate, were debtors and creditors properly recorded?</p> <p>Has the previous 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>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>The statements agree with the cash book and there is an underlying audit trail from the cash book to the year-end statements.</p> <p>The total value of assets shown on the Asset Register agrees to the declaration in box 9, Fixed Assets, on the year-end Accounting Statement.</p> <p>The 2020/21 Internal Audit Report was presented to council on the 7th September 2021.</p>
12	<p>If the council certified itself as exempt from an External Audit Limited Assurance Review last year,</p>	<p><u>Exemption Certificate</u></p> <p>Findings</p> <p>Section 2, Accounting Statements, of the Annual Governance and Accounting Return Part 2, identified that the council's gross income for last year or gross annual expenditure for the year did not exceed £25,000.</p>

	has it met the exemption criteria and correctly declared itself exempt?	<p>Owing to the previous Clerk terminating his employment, the incorrect date on which the Exemption Certificate was agreed by council was provided on the certificate submitted to the External Auditor. This has now been corrected and agreed by the council on the 15th December 2021. The revised certificate has been submitted to the External Auditor and placed on the council's website.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council's confirmation, that it meets all of the criteria required under section 9 of the Local Audit (Smaller Authorities) Regulations 2015, should be minuted when it authorises the Annual Exemption Certificate.
13	Did the council publish information on a website/webpage, up to date at the time of the internal audit, in accordance with the Transparency code for smaller authorities?	<p><u>Transparency Code</u></p> <p>Findings</p> <p>All of the information required by the 2015 Transparency Code for Smaller Authorities should be published annually by the council.</p>
14	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<p><u>Exercise of Public Rights</u></p> <p>Findings</p> <p>Owing to the previous Clerk resigning from the council, the Notice of Public Rights was not published until the 15th December 2021. This is later than the date required by the External Auditor and was, unfortunately, unavoidable.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should correctly provide the proper opportunity for the exercise of public rights in accordance with the requirements of the 2015 Accounts and Audit Regulations.

15	Did the council comply with the publication requirements for the previous year's AGAR?	<u>Publication Requirements</u> Findings I have reviewed the council's new website and confirmed that the council published the correct documents as required by the Accounts and Audit Regulations 2015.
16	Has the council met its responsibilities as a Trustee?	<u>Trustee responsibilities</u> Findings I have seen no evidence that the council has responsibility for Trust Funds and the council's accounting records do not include any Trust Fund income or expenditure.

Executive Summary

This has been a particularly challenging year for the council. Following the change of Parish Clerk, many issues have been addressed to ensure that the Governance arrangements and financial control procedures comply with legislative requirements and External Audit guidance.

The Clerk is aware that more work is now required since it was identified that the Wrawby Playing Field Association is a separate legal entity from the council. The report identifies the issues that have arisen because of this and provides recommendations to correct the incorrect practices that have prevailed for many years at the council.

With the current Clerk now in place, I am confident that all of the issues will be properly addressed during the current financial year. The priority of recommendations identifies the matters which must be addressed immediately\ and those which can be resolved during the remainder of the 2022/23 year of account.

The assistance of the Clerk with the completion of the audit is acknowledged and much appreciated.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2021 and I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

21st April 2022

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