

Public Sector Audit

Wrawby Parish Council

Internal Audit Report for the year ended 31 March 2021

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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 2021. 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 manual analysed cash book has been well maintained and is complete for the year. It is arithmetically correct.</p> <p>There is evidence in the cash book of three interim bank reconciliations and a year-end reconciliation being performed.</p> <p>A revised Governance and Accountability Guide has been issued by the National Joint Panel this year. In accordance with the revised instructions for Town and Parish Councils the allocation of staff travelling costs is now required to be analysed as "All other payments" and included in box 6 on the year-end Annual Return.</p> <p>For clarification purposes, the 2020 Governance and Accountability Guide states:</p> <p><i>"Staff costs for the purpose of Line 4 include gross salary of employees, employers' national insurance contributions, employers' pension contributions, gratuities for employees or former employees and severance or termination payments to employees. The following are not staff costs for the purpose of Line 4; mileage and other travelling and subsistence allowances, "Homeworking allowance" that is, an allowance paid to cover the extra costs of working from home, the provision of work related training, the reimbursement of childcare or other carers costs, the reimbursement of a staff members subscription to the Society of Local Council Clerks, the provision of office supplies such as laptop, scanner or stationery and consultants and agency staff. The definition of "staff costs" for the purposes of Line 4 may differ from what is, or is not, treated as taxable earnings by HMRC. In as much as this is a change of reporting basis, corresponding figures from the preceding year must be restated in a similar basis."</i></p> <p>It is acknowledged that the council did not incur staff travel costs during the year. The recommendation is, therefore, advisory only if staff travel costs are incurred in the future.</p>

		<p>Recommendation</p> <ul style="list-style-type: none"> Any staff travel costs incurred in the future should be included in box 6, all other payments, on the year-end Accounting Statement in accordance with revised Government requirements.
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>Copies of the council's current Standing Orders and Financial Regulations were not provided to audit for review and verification purposes.</p> <p>Revised NALC Model Standing Orders, to reflect annual changes in contract values, were announced during the year. ERNLLCA has confirmed that it expects yet another change given that the UK is no longer a member of the EU, though the timing of this is not yet known. For ease of reference, the latest Model Standing Orders and Financial Regulations are available on the ERNLLCA website.</p> <p>During July 2019 NALC also revised its Model Financial Regulations. The changes since the previous regulations were in respect of Contracts Regulations.</p> <p>Recommendations</p> <ul style="list-style-type: none"> When the council next reviews its Standing Orders it should take account of the revised NALC Model and enquire whether a further updated Model has been announced to take account of the UK ceasing to be a member of the EU. The council should adopt the revised July 2019 NALC Model Financial Regulations which have been amended to reflect legislative changes since the previous Model was issued. The council's Standing Orders and Financial Regulations should identify the date(s) on which they were approved by council and the NALC Model on which they are based.

		<ul style="list-style-type: none"> ● Standing Orders and Financial Regulations should be reviewed by council each year to ensure that they are the latest NALC Model to reflect current 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</p> <p>I have tested all payments to ensure that they are fully approved and authorised, the payments appear in the bank account, and they have been reported to council.</p> <ul style="list-style-type: none"> ➤ Owing to the pandemic, payments were authorised retrospectively at the Council meeting held on the 2nd March 2021. ➤ Invoices for some of the payments recorded in the cash book were not provided to audit for review and verification purposes. <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.</p> <ul style="list-style-type: none"> ➤ It was noted that the VAT element of the receipts, in respect of the purchase of plants, has not been recorded in the cash book for subsequent reclaim from HMRC. Under the HMRC's simplified invoice rules, the VAT element of such purchases can be recovered by the council. ➤ Expenditure has been incurred in respect of the Playing Field Association. If the Association is a separate entity to the council, the expenditure should be identified as s.137 expenditure and any associated VAT should not be included on the council's VAT reclaim. <p>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.</p> <p>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.</p>

		<p>Recommendations</p> <ul style="list-style-type: none"> ● Invoices should be maintained for all council expenditure and provided to audit for review and verification purposes. ● The VAT element of expenditure incurred under HMRC's simplified invoice rules should be identified in the cash book for inclusion on the VAT reclaim. ● The VAT element of expenditure 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. ● All council donations, such as payments to separate bodies, should be identified as s.137 expenditure in the cash book to ensure that the statutory annual limit for such expenditure is not exceeded. This also provides a separate analysis to enable audit verification that the expenditure is appropriate for this statutory power. ● The council should register with the ICO and pay the standard registration fee of £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 Clerk has provided the council's Risk Assessment for audit. The 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 because of asset ownership. <p>The document is not dated, and it is not known if it is up to date.</p> <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</p> <p>The cash book confirms that the Playing Field has been inspected by an external company during the year, although the invoice was not provided to audit. The council's Risk Assessment identifies that the Village Hall and playing field are inspected regularly and a record of the inspections is kept.</p> <p>I have reviewed the council's insurance policy and the indemnity limits are adequate. It is not clear, however, from the documentation seen that both Officers and Members of the council are covered for Fidelity Guarantee. As the council Members are responsible for signing cheques, all Councillors should be covered by Fidelity Guarantee insurance.</p> <p>I have previously discussed with the Clerk the security of the council's electronic information. The Clerk believed at the time that all the council's electronic information is backed up automatically to an independent hard drive which was installed by the late Vice Chairman of the council. I have not received an update of this position for several years.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council's 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. ● 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.
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		<ul style="list-style-type: none"> ● The council should check with its insurers that both the Clerk and all Councillors are covered for Fidelity Guarantee insurance. Confirmation of this cover should be obtained in writing and included with the council's insurance documentation. ● The security of the council's electronic data should be reviewed to ensure that there is no risk of loss of data in the event of a virus attack, fire or theft involving the main computer. Back-ups should ideally be performed weekly to an independent hard drive which is stored away from the computer.
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 for 2020/21 was prepared by the Clerk. It correctly includes both anticipated expenditure and income (if appropriate). It was presented to council on the 7th January 2020 for the purpose of setting the 2020/21 Precept.</p> <p>Owing to the ongoing pandemic, very few council meetings were held during 2020/21 and budget monitoring was not reported at the meetings.</p> <p>The council's balances at the 31st March 2021 totalled £5,828. This represents 49% of the 2021/22 Precept and is considered to be adequate for a council the size of Wrawby.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● When council meetings resume normal frequency, budget monitoring reports should be presented to Council Members on a quarterly basis.
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p>	<p><u>Adequate income controls</u></p> <p>Findings Apart from the Annual Precept the council also received a grant from NLC in respect of village planting and a small amount of bank interest. No income has been received that requires the council to have a formal Scale</p>

	<p>Were security controls over cash and cash equivalents effective?</p>	<p>of Charges. A VAT refund was not due for the previous year as this was claimed, and received, during 2019/20.</p> <p>No documentary evidence (remittance advices) was provided to audit in support of the income received from NLC.</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</p> <p>The council does not maintain a petty cash system.</p> <p>Low-cost items which 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>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>Each year since 2013/14, Internal Audit reports have recommended that; "The Clerk's employment status must be formalised by the council and the March 2011 HMRC guidance complied with". It has also been recommended that: "A formal contract of employment should be provided for the Clerk with clear terms and conditions".</p> <p>I have again requested information regarding a contracts of employment prior to the audit but no evidence was included in the records submitted that the two people who work for the council have been issued with</p>

<p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p>contracts of employment. It is noted that the minutes of the meeting held on the 14th May 2019 confirm that the Clerk <i>"is still seeking new contract(s) of employment and will advise as soon as possible."</i></p> <p>HMRC issued guidance in March 2011 setting out the correct Income Tax and NIC treatment of Parish Clerks. This guidance confirms that a Parish Clerk is an office holder and that all office holders are subject to PAYE. The 2020 NALC/SLCC Governance and Accountability Guide, paragraph 5.49 reinforces this position and confirms that Parish Clerks:</p> <ul style="list-style-type: none"> ➤ can never be considered as self-employed for tax or NIC purposes. ➤ cannot be paid 'gross'; and ➤ fall to be taxed under PAYE. <p>Owing to the pandemic the Clerk and the council's Groundsman received only two payments during the year. Each payment, made in March 2021 was authorised at the council meeting held on the 2nd March 2021.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As recommended since 2013/14, the Clerk's employment status should be formalised by the council and HMRC guidance complied with. ● A formal contract of employment should be provided for the Clerk with clear terms and conditions. The contract should include both the salary and expenses paid by the council. Pro forma contracts can be obtained from ERNLLCA. ● All council employees should be subject to HMRC tax and NI regulations. ● 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."
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		<ul style="list-style-type: none"> ● Unless the groundsman is self-employed, a formal contract of employment should be issued to him by the council. ● All future increases in salary or expenses should be formally authorised and minuted.
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 The council does not maintain a formal Asset Register. A document has been provided to audit which records four figures: one of £5,622 described as "Historical", another of £251,655 for the Village Hall, one for two salt bins purchased last year and a total of assets held by the council.</p> <p>The description of "Historical" does not provide sufficient detail to confirm that all assets owned and insured by the council are included on the register.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should maintain a formal Asset Register in the required format. An example is contained in the 2014 NALC/SLCC Governance and Accountability Practitioners Guide for Local Councils. ● The council should review the assets it holds and insures to confirm that the Asset Register fully reflects all assets held. ● The Asset Register should be presented to council annually for review and approval.
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><u>Adequate bank reconciliations</u></p> <p>Findings The periodic and year-end bank reconciliations contained in the cash book correctly include the council's Current Account and Business Reserve Account.</p>

	<p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p>It is noted that the year-end and periodic bank reconciliations recorded in the cash book have not been authorised by the Chairman or a nominated Member of the Council. 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 and bank statements presented to audit.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● It is considered to be part of a sound internal financial control environment that all bank reconciliations should be presented to council for review and approval on a regular and timely 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><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. The year-end Accounting Statement (Section 2), however, requires amendment in respect of the following:</p> <p><u>In respect of column 1 - Year-ending 31st March 2020:</u></p> <ul style="list-style-type: none"> ➤ Box 9, fixed assets, has been incorrectly brought forward from last year. It should read £257,579. ➤ Box 10, total borrowings, has been incorrectly brought forward from last year. It should read "Nil."

<p>Has the previous Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>In respect of column 2 - Year-ending 31st March 2021:</u></p> <ul style="list-style-type: none"> ➤ Box 4, staff costs, should only include salary costs and exclude expenses, in accordance with the definition in section 1 of this report. It should read, therefore, £2,346. ➤ Box 6, all other payments, requires increasing by £208 in respect of staff expenses currently included in box 4. It should read, therefore, £9,455. <p>As a result of the above amendments, the Analysis of Variances will also require amending.</p> <p>It is noted that the Certificate of Exemption - AGAR (Annual Governance and Accountability Return) Part 2 also requires amendment:</p> <ul style="list-style-type: none"> ➤ The declaration of total annual gross expenditure for the council should agree with the cash book and the total of boxes 4 and 6 on the Accounting Statement. It should read, therefore, £11,801. It has currently been reduced by £879 in respect of VAT. The Certificate of Exemption, however, requires that the declaration of annual expenditure is quoted as a "gross" figure and not net of VAT. <p>Except for "staff costs" - required for box 4 on the AGAR - there an audit trail from underlying financial records 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 2019/20 Internal Audit Report was issued to the council on the 17th August 2020. The council minutes of the meeting held on the 7th August 2020 record that; "The Clerk confirmed that he was in contact with Richard Dixon, the Internal Auditor, with regard to the 2019/20 audit and the final details, report, etc. will be presented to Council when the next meeting can be held." Owing to the Covid 19 pandemic, the next meeting was held remotely on the 26th January 2021, but the Internal Audit Report was not presented to Council at this meeting.</p>
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		<p>Recommendations</p> <ul style="list-style-type: none"> ● In respect of the Accounting Statement, Boxes 9 and 10 for year-ending 31/03/20 and boxes 4 and 6 for year-ending 31/03/21 should be amended as indicated above. ● In respect of the Exemption Certificate: the figure of gross expenditure for 2020/21 should be amended as indicated above. ● The figures comprising staff costs should be separately analysed in the cash book for ease of identification and to provide an audit trail to the AGAR ● The Analysis of Variances for the External Auditor should be amended in respect of boxes 6 and 10 following the above amendments. ● The Internal Audit Report should be presented to council for review and approval and an action plan prepared to address the recommendations.
12	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<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> <p>The Clerk has confirmed that the exemption criteria identified on the Certification of Exemption for last year were fully met by the council.</p>
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>The following information should be published annually in accordance with the 2015 Transparency Code for Smaller Authorities:</p> <p>A) All items of expenditure above £100</p>

		<p>B) End of year accounts C) Annual governance statement D) Internal audit report E) list of councillor or member responsibilities F) Details of public land and building assets G) Minutes, agendas, and meeting papers of formal meetings</p> <p>The levels of detail to be published for each of the above is identified in the 2015 Transparency Code for Smaller Authorities.</p> <p>I have reviewed the Council's website and confirmed that items A) and E) have been published in respect of 2019/20. Also, the minutes of Council Meetings, with the exception of the Planning Meeting held on the 2nd March 2021, have been published. The agendas, however, for Council meetings held during the year have not been published.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● All the information required by the 2015 Transparency Code for Smaller Authorities should be published annually by the council.
14	<p>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>	<p><u>Exercise of Public Rights</u></p> <p>Findings</p> <p>I have reviewed the council's website and confirm that the Notice of Public Rights was not published by the council during the summer of 2020. The Clerk has confirmed that he will ensure that it is correctly displayed in the future.</p> <p>Recommendations</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?	<p><u>Publication Requirements</u></p> <p>Findings</p> <p>The Government imposes additional publication requirements for Smaller Councils. These publication requirements are shown on page one of the 2020/21 AGAR and are:</p> <p>Certificate of Exemption, page 3</p> <p>Annual Internal Audit Report 2020/21, page 4</p> <p>Section 1 – Annual Governance Statement 2020/21, page 5</p> <p>Section 2 – Accounting Statements 2020/21, page 6</p> <p>Analysis of variances</p> <p>Bank reconciliation</p> <p>Notice of the period for the exercise of public rights and other information required by Regulation 15 (2), 2015 Accounts and Audit Regulations.</p> <p>A review of the council's website confirms that the additional information detailed above was not published by the council during the summer of 2020. The Clerk has confirmed that he will ensure that it is correctly displayed in the future.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The information detailed above should be published by the council in accordance with the Accounts and Audit Regulations 2015.
16	Has the council met its responsibilities as a Trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings</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>

Executive Summary

It is acknowledged that 2019/20 was a challenging year for the council. The ongoing Covid 19 pandemic and the necessity to hold remote council meetings placed additional pressure on the Clerk and Council Members. Additionally, new audit checks, required by the Government, has identified that many statutory publication requirements have not been met.

It is recommended that the council reviews this report in detail and prepares an action plan to respond to the recommendations, many of which are statutory requirements and have been recommended in previous years. The action plan should identify what action is to be taken, by whom, and a timeline to implement the recommendations in accordance with their prioritisation

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2020.

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

26th August 2021

Public Sector Audit

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