

Public Sector Audit

Gowdall Parish Council

Internal Audit Report for the year ended 31 March 2023

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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 2023. 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 Page | 3 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

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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 accounting records are maintained in a manual analysis cash book. It is has been well maintained and balanced up to the 31st March 2023.</p> <p>It is sufficiently well analysed to provide all the information required for the completion of the Annual Governance and Accountability Return (AGAR).</p> <p>The cash book is arithmetically correct and quarterly bank reconciliation confirms that the cash book and bank are in agreement.</p> <p>Records are maintained to provide an audit trail from original receipts/invoices and remittance advices to the cash book and bank.</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</p> <p>The council's Standing Orders and Financial Regulations were approved at the council meeting held on the 26th October 2021.</p> <p>The Standing Orders are not, however, the latest NALC Model, which was issued in April 2022. The Financial Regulations are the latest NALC Model.</p> <p>On the 21st December 2022, the Government increased the £25,000 threshold, under the Public Contracts Regulations, to £30,000. NALC has not yet amended its Model Standing Orders and Financial Regulations to take account of this legislative change. It is understood that ERNLLCA has advised councils to wait until NALC has updated its Standing Orders (18.c) and Financial Regulations (11.b) before amending these documents.</p>

		<p>Financial Regulation 1.8 formally confirms the appointment of the Clerk as the council's RFO.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should formally adopt the latest NALC Model Standing Orders dated April 2022. ● For clarity and transparency purposes the council may wish to update Standing Orders (18.a.c of NALC's latest Model) and Financial Regulations (11.1.b). to reflect the increase in the Government's procurement threshold under the Public Contracts Regulations.
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 throughout the year.</p> <p>I have reviewed for completeness, accuracy, correct year of account, authorisation by two Council Members, reporting to council and classification within the council's accounts.</p> <p>I am required by the External Auditor to confirm that the council has complied with its Financial Regulations. The council's Financial Regulations identify that the RFO shall strive to obtain 3 estimates when the value of a supply is below £5,000 and above £100.</p> <ul style="list-style-type: none"> ➤ It is noted that the council entered into contracts during the year for hanging baskets, grass cutting of the recreation area and grass cutting at Field Lane. The Clerk has confirmed that three estimates for these works were not sought, however. <p>I have tested that VAT has been identified and correctly recorded in the accounting records for inclusion in the VAT reclaim at the year end.</p> <ul style="list-style-type: none"> ➤ Payment references 6 and 19 are both supported by till receipts for vatable goods. The amount of VAT included in the total cost of the purchases is not separately identified but, under HMRC's Simplified Invoice Rules, this is not necessary as the supplier's VAT registration number is recorded on

the receipts. The VAT element of the purchases has not been identified in the cash book for reclaim from HMRC.

- Also, payment reference 29, for sundry items for Christmas, includes till receipts from B & M that do not separately identify the VAT element of the purchases. In these cases the VAT has been calculated using the wrong method of calculation (the totals of these receipts have been multiplied by 20%; the totals should, however, be divided by 6 to calculate the VAT elements included in the totals).

A separate account has correctly been established for s137. No expenditure has been coded to this statutory power during the year.

No cheques have been issued during the year; all payments have been made electronically.

All invoices are presented council for review and approval and are recorded in the minutes. Each invoice is signed by the Chairman and one other Councillor. All payments are paid online.

Recommendations

- All VAT incurred by the council should be identified in the cash book for reclaim from HMRC.
- The VAT elements of VAT receipts should be calculated using the correct method of calculation to ensure that the VAT reclaim for HMRC is correct.
- The council should comply with its Financial Regulations in relation to obtaining quotations or estimates for goods and services above the deminimus limits.
- Following the release of a briefing note (LO1-18) from NALC several years ago, the council needs to be aware that section 8 of the 1894 Local Government Act prohibits a Parish Council from incurring expenditure on "property relating to the affairs of the church or held for an ecclesiastical charity". It is NALC's view that this prohibition still applies and is not overridden by the general provisions of section 137 of the 1972 Local Government Act. Section 137 expressly provides that expenditure cannot be incurred for purposes which are

		<p>subject to a statutory prohibition, restriction or limitation and cannot, therefore, be used for the maintenance or upkeep of property or land owned by the church.</p> <p>● If the council plays recorded music in public it may wish to enquire whether a licence fee is payable to PPS PRS Ltd. Further information can be found at "www.gov.uk/licence-to-play-live-or-recorded-music"</p>
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 maintains detailed Risk Assessments which identify all council risks and the measures in place to control and mitigate the risks. The Risk Assessment was reviewed and approved at the council meeting held on the 5th May 2022. It is noted that the Risk Assessment in respect of assets identifies that visual inspections are undertaken at least annually. Inspection of the 1.1 acres of land, identified on the Asset Register, is not, however, included on the Risk Assessment.</p> <p>I am required by the External Auditor to: <i>"Ensure that appropriate arrangements are in place for monitoring play areas, open spaces and sports pitches: such reviews should be undertaken by appropriately qualified external inspectors or, if by officers or members, that they have received the appropriate training and accreditation."</i> The Clerk has confirmed that the council does not maintain documentary evidence in support of the routine inspections of land, assets etc., for Health and Safety purposes.</p> <ul style="list-style-type: none"> ➤ The recording of routine inspections of land and street furniture, for which the council is responsible, demonstrates the council's commitment to maintaining a safe environment for the public whilst at the same time protecting its interests in the event of an issue arising or a claim being made against the council. The council's insurers will be happy to provide advice on the recommended frequency of such inspections as it is they who are carrying the risk. Also, proforma inspection sheets are available from ERNLLCA and inspection courses are available to the Clerk and council Members. The sheets should include details of what has been inspected, the date of inspection, the findings and any issues identified, what action is required and a final column identifying the date on which appropriate action was taken. The sheets should be signed and dated by the person who undertook each inspection and forwarded to the Clerk for review and the progression of any action required.

I have examined the council's insurance policy and the indemnity limits are considered to be adequate. It is noted that the total sum of council assets insured for All Risks is £10,000. The Asset Register, however, identifies a total asset valuation as at 31st March 2023 as £18,845. £750 of this total relates to the 1.1 acres of land owned by the council.

I have re-reviewed the security of the council's electronic data. The Clerk has confirmed that electronic records are continuously backed up to cloud storage. At the time of the audit the Clerk confirmed that not all electronic data is encrypted, or password protected. If lost or stolen, access to any unprotected devices could contravene GDPR and incur reputational risk for the council.

The council does not currently maintain a document that identifies key tasks which need to be undertaken on a weekly, monthly, quarterly and annual basis. Such a document would provide useful information and could be essential in respect of the continuation of routine financial and governance processes undertaken by the Clerk, in the event of an unexpected absence.

Recommendations

- Asset inspection sheets should be introduced by the council to record the routine inspections of all council owned and maintained land and assets. They should be forwarded to audit annually for review and verification purposes.
- The council's computer and any other media (external hard drives or memory sticks for example) should be either encrypted or password protected to safeguard the council's interests in the event of loss or theft.
- The council should review the insurance policy schedule limit for All Risks cover and compare this with the Asset Register to ensure that it has adequate cover for all of the assets that it wishes to insure.
- The council may wish to consider the preparation of a document which records the key tasks undertaken on a regular basis. This would assist in the seamless running of the council in the event of the unexpected absence of the Clerk.

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</p> <p>A detailed budget, which included each income and expenditure cost centre, was prepared for 2022/23 and was approved by Full Council on 4th November 2021.</p> <p>Quarterly budget monitoring reports, which compare actual income and expenditure against the council's original budget, are presented council by the Clerk for review and approval. The council's minutes record the approval of the reports.</p> <p>The council's general balances as at the 31st March 2023 totalled £11,150. The council holds earmarked reserves of £900 for flood reserves and £225 for the toddler group. The remaining general balance of £10,025 represents 100% of the council's current Precept requirement and is considered to be both adequate and prudent for a council the size of Gowdall Parish Council.</p>
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</p> <p>The council's Precept for 2022/23 totals £8,738.32 which agrees to the two equal instalments of £4,369.16 received on the 3rd May and 3rd October 2022.</p> <p>The council also received income in respect of the annual HMRC VAT refund, Field Rent, a grant from Drax and a small amount of bank interest. The External Auditor requires me to certify that "<i>Expected income was fully received, based on correct prices</i>". Supporting documentation was not, however, provided to audit in respect of the majority of income received during the year. It was noted that field rent of £73.50 was received in 2022/23. The previous Internal Auditor's records identify that: "<i>Field rent reviewed and increased to £70 per annum effective from June 2021; thereafter triennial review.</i>" The cash book, however, identifies that only £31.50 was received in respect of field rent during 2021/22.</p>

		<p>I have agreed the Precept to the 2022/23 Precept request to ERYC and the Government website. I have also agreed the VAT refund to the 2021/22 cash book and noted the underclaim last year, in respect of sundry items that were omitted in the 2021/22 claim; these should be included in the current year's VAT reclaim.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Documentation in respect of all income received should be provided to audit for review and verification. This should include any paperwork associated with the grant from Drax and a formal agreement with the tenant of the field. ● The council should identify what agreement it has with the tenant of the field and ensure that annual income received is in accordance with the agreement. ● The 2023/24 VAT reclaim should include unclaimed VAT from 2021/22 and the adjustments necessary as a result of this year's audit.
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>A separate petty cash system is not maintained. All petty disbursements incurred by the Clerk and council Members are reclaimed monthly and reimbursed through the payments system together with all other payments.</p> <p>Section 3 of this report identifies that, on occasions, the VAT element of sundry expenditure has not been correctly analysed and identified in the cash book.</p> <p>Petty disbursements are reported to council monthly, together with all other council payments.</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>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>The council's Clerk received a formal contract of employment, dated the 11th November 2015, which was signed by the Clerk and the council and contains clear terms and conditions of employment.</p> <p>I have agreed all salary payments from April 2022 to March 2023 to the original contract, including any subsequent changes approved by the council and the 2023 NJC National Pay Award including back pay to the 1st April 2022.</p> <p>All allowances paid are reasonable and have been authorised by council.</p> <p>The Clerk has been subject to PAYE and NI regulations via the payroll prepared by the council's external payroll provider. All statutory deductions due per the payslips have been correctly paid to HMRC. The P 60 agrees to the gross pay and PAYE paid during the year.</p> <p>The External Auditor now requires me to check that the correct employers' pension percentage contribution has been applied. The Clerk has confirmed that she has, however, opted to not auto-enrol into the Government's NEST pension scheme.</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's Asset Register is maintained as a schedule. It is in the recommended format.</p> <p>I have reviewed the expenditure records for the year and confirm that the purchase of Christmas lights has been added to the register. The valuation, however, does not reflect the net cost to the council. The Government's Joint Practitioner's and Advisory Group's Governance and Accountability Guide for councils identifies that the Internal Auditor should: <i>"Ensure that the Authority is maintaining a formal asset register and updating it routinely to record new assets at historic cost price, net of VAT and removing any disposed of / no longer serviceable assets"</i>. Following the completion of the audit, the Clerk amended the register to reflect</p>

		<p>the Government's guidance in respect of the valuation of the lights purchased during the year; the declaration in box 9 of the year-end Accounting Statement was also amended to reflect the adjusted total asset valuation as at the 31st March 2023.</p> <p>The council does not hold any investments.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should record all future assets purchased at cost prices, exclusive of VAT.
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>Bank reconciliations have been prepared quarterly by the Clerk. They correctly include both the council's Current Account and Deposit Account.</p> <p>The reconciliations have been signed as prepared by the Clerk & RFO and by the Chairman as confirmation that he has reviewed them.</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 respective month end-bank balances to the reconciliations.</p> <p>A review of the reconciliations confirms that there are no unusual or balancing entries.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As an important part of council's internal financial control system, the Chairman should sign against the month-end bank balances on the respective bank statements to signify that he or she has checked and agreed the month-end balances to the bank reconciliations.

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 cashbook and there is an audit trail from underlying financial records to the year-end statements.</p> <p>The figure in box 8, bank balances, agrees to the year-end bank reconciliation statement and the figure in box 9, fixed assets, agrees with the year-end total on the Asset Register.</p> <p>The Internal Audit Report in respect of 2021/22 was presented to, and approved by, the Parish Council on the 7th July 2022.</p>
12	<p>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>	<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 council confirmed, by signing the Certificate of Exemption at the meeting held on the 5th May 2022, that the exemption criteria identified on the Certificate for the previous year were fully met by the council.</p>
13	<p>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>	<p><u>Transparency Code</u></p> <p>Findings</p> <p>The council's gross income for last year or gross annual expenditure for the year did not exceed £25,000 and hence the council is subject to the Transparency Code for Smaller Councils.</p> <p>I have reviewed the council's website and confirmed that the Parish Council published the required information in accordance with the Smaller Authorities Transparency Code.</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?	<u>Exercise of Public Rights</u> Findings I have confirmed by a review of the council's website that, during the summer of 2022, the council correctly provided 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 website and confirmed that the Parish 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 Clerk has confirmed that this is the case.

Executive Summary

The audit has highlighted areas where financial and governance issues require attention in order to comply with Government instructions and guidance.

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The internal financial control environment within the council will be enhanced by the consideration and adoption of the report's recommendations, which will serve to strengthen the systems, procedures and governance arrangements already in place. In addition, advisory notes have been included in the report; these will provide increased transparency and best practice. Some are for information only, as I am not yet familiar with all of the council's operational practices.

The assistance of the Clerk of the council in the completion of this audit was very much appreciated.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2022.

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

30th April 2023

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