

Internal Audit Report for Shadingfield, Sotterly, Willingham and Ellough Parish Council for the year ending 31st March 2021

Clerk	Steve Blackburn
RFO (if different)	
Chairperson	Caroline Ellis
Precept	£ 7,201.56
Income	£ 14,750.09
Expenditure	£ 15,322.20
General reserves	£ 11,452.00
Earmarked reserves	£ 8,600.00
Audit type	Annual
Auditor name	Julie Lawes

Introduction

The primary objective of internal audit is to review, appraise and report upon the adequacy of internal control systems operating throughout the council. To achieve this SALC adopt a predominantly systems-based approach to audit.

The council's internal control system comprises the whole network of systems established within the council to provide reasonable assurance that the council's objectives will be achieved, with reference to:

- the effectiveness of operations
- the economic and efficient use of resources

- compliance with applicable policies, procedures, laws and regulations
- the safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- the integrity and reliability of information, accounts and data

Methodology

When conducting the audit, the internal auditor may:

- carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year in order to be able to complete the Annual Internal Audit Report 2020/21 of the Annual Governance and Accountability Return (AGAR)
- review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
- review the means of safeguarding assets and, as appropriate, verify the existence of such assets
- appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems
- review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the council complies
- review the operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned

Section 1 – proper bookkeeping		
The internal auditor will look at the methods and processes used to manage the council’s accounts and in particular that it provides clear data for reporting and monitoring purposes. This includes checking information is accurate, kept up to date, referenced and verified.		
Evidence		<i>Internal auditor commentary</i>
<i>Is the ledger maintained and up to date?</i>	YES	The council uses an excel spreadsheet which allows the Responsible Financial Officer (RFO) to produce reports on a Receipts and Payments basis and ensures that the financial transactions of the Parish Council are recorded and are as accurate as reasonably practical.
<i>Is the cash book up to date and regularly verified?</i>	YES	This provides good evidence to support the councils underlying statements.
<i>Is the arithmetic correct?</i>	YES	Accounting records were spot checked - they are well maintained and clearly identify receipts and payments at any given point.
Additional comments: The council maintains a good record of bookkeeping.		

Section 2 – Financial Regulation and Standing Orders		
The internal auditor will check the date the Council carried out its annual review of both Standing Orders and Financial Regulations and in particular check if these are based on NALC'S latest model which include legislative changes.		
Evidence		<i>Internal auditor commentary</i>
Have Standing Orders been adopted, up to date and reviewed annually?	YES	The council carried out a review of its Standing Orders on 17 th March 2021. This is reviewed annually and updated accordingly with the document available to view on the council's website.
Are Financial Regulations up to date and reviewed annually?	YES	The council carried out a review of its Financial Regulations on 17 th March 2021. This is reviewed annually and updated accordingly with the document available to view on the council's website.
Has the Council properly tailored the Financial Regulations?	<i>Partly Met</i>	The current Financial Regulations have in the main been tailored to the council, but parts remain which refer to the Clerk and the RFO although this is one person and some items are yet unchanged (eg. 3.1 Annual estimates and forward planning).
Has the Council appointed a Responsible Financial Officer (RFO)? ¹	YES	In accordance with Section 151 Local Government Act 1972 (d) the council has appointed a person to be responsible for the administration of the financial affairs of the relevant authority. As per the councils Financial Regulations 1.8 the Clerk is the RFO.
Additional comments: The council should be aware that new model regulations were issued in August 2019, copies are available on the SALC website.		

¹ Section 151 Local Government Act 1972 (d)

Section 3 – Payment controls		
The internal auditor will specifically check bank reconciliation including credit/debit cards and management approval processes and evidence that internal Financial Regulations (FO) are being followed. The internal auditor will examine how regular payments are managed and specifically seek evidence that these have been brought back to the Council for verification purposes especially where the actual payment made differs from the amount previously agreed. VAT should be clearly identified including evidence that claims have been correctly managed. The internal auditor will check if the Council has a clear understanding on eligibility in relation to the General Power of Competence and that s.137 has been correctly applied and managed.		
Evidence		<i>Internal auditor commentary</i>
Is there supporting paperwork for payments with appropriate authorisation?	YES	A selection of expenditure items was made and cross-checked against the cashbook, invoices and bank statements. At each full council meeting a list of payments is presented to ensure formal approval of expenditure and this is correctly minuted. This demonstrates good practice in that there are measures in place that help safeguard public money supported by a straight forward and clear audit trail for each payment.
Where applicable, are internet banking transactions properly recorded and approved?	N/A	The council does not use internet banking
Is VAT correctly identified, recorded and claimed within time limits?	YES	Identified within the cashbook a sum of £2,341.48 was received 31/07/2020. This covers 4 payments over a period from 01/04/2015 to 31/03/2019. The VAT legal topic note states that a claim must relate to a period of at least 1 calendar month (or at least 12 months if it is under £100) ending on the last day of the calendar month and be made within 4 years after the end of the month in which the supply, acquisition or importation was received. Comment: It is recommended / good practice that councils complete a VAT return annually, however this is not a legal requirement.

Has the Council adopted the General Power of Competence (GPOC) and is there evidence this is being applied correctly? ²	N/A	The council is not using the General Power of Competence
Are payments under s.137 ³ separately recorded, minuted and is there evidence of direct benefit to electorate?	N/A	There were no S137 payments made during the financial year under review.
Where applicable, are payments of interest and principal sums in respect of loans paid in accordance with agreements?	N/A	The council has no such loans
Additional comments:		

² Localism Act

³ Section 137 of the Local Government Act 1972 (“the 1972 Act”) enables local councils to spend a limited amount of money for purposes for which they have no other specific statutory expenditure. The basic power is for a local council to spend money (subject to the statutory limit – of £8.12 per elector) on purposes for the direct benefit of its area, or part of its area, or all or some of its inhabitants.

Section 4 – Risk management		
The internal auditor will expect to find evidence of the management of risks from identification of what those are for each individual Council through to how these will be managed and the controls in place to mitigate these and that these have been approved by the Council.		
Evidence		Internal auditor commentary
<i>Is there evidence of risk assessment documentation?</i>	<i>Partly Met</i>	For the year under review evidence was not seen of a Risk Assessment document for that period. However, it was noted that there was a document in place and reviewed within the previous Internal Audit, and a new Financial Risk Assessment adopted by full council 21 st April 2021 and uploaded on the council's website. Further Risk Guidance for Events documents to be considered in the coming months.
<i>Is there evidence that risks are being identified and managed?</i>	YES	There is evidence that the council is aware of its obligations to focus on the safety of the Parish Councils assets, in particular its money and has procedures in place to support that.
<i>Does the Council have appropriate and adequate insurance cover in place for employment, public liability and fidelity guarantee and has been reviewed on an annual basis?</i>	YES	Council has insurance in place under a Parish Protect Policy which shows core cover for the following: Public Liability £10m; Public / Products Liability £10m; Business Interruption £5k and Fidelity Guarantee £25k. The level of Fidelity Guarantee meets the recommended guidelines which provides that the cover should be at least the sum of the year end balances plus 50% of the precept / grants.
<i>Evidence that internal controls are documented and regularly reviewed⁴</i>	YES	In accordance with the Accounts and Audit Regulations 2015, council reviewed the effectiveness of the system of internal control statement at a meeting of full council on 17 th March 2021. Recommendation: Whilst the document was reviewed and adopted by council there is no evidence within the minutes that the Parish Council has undertaken a review of the effectiveness of the system of control during the year under audit. This should be done at the least annually.

⁴ Accounts and Audit Regulations

<i>Evidence that a review of the effectiveness of internal audit has been carried out during the year⁵</i>	YES	The effectiveness of the internal audit and required actions were reviewed by full council at a meeting held 20 th January 2021 in accordance with the Governance and Accountability Guide.
Additional comments: By reviewing the terms of reference and effectiveness for internal audit the council has followed guidance and demonstrates that it recognises that the function of internal audit is to test and report to the authority on whether its system of internal control is adequate.		

⁵ Governance and Accountability Guide

Section 5 – Budgetary controls		
The internal auditor will seek verification that budgets are properly prepared, agreed and monitored. In particular they will look for evidence of good practice in that the key stages of the budgetary process have been followed		
Evidence		Internal auditor commentary
<i>Verify that budget has been properly prepared and agreed</i>	YES	The draft budget was circulated to councillors at a meeting held 15 th January 2021 with the formal setting of the budget for the year 2020/2021 being agreed at a full meeting of the council held 29 th June 2020. Comment: See additional comments
<i>Verify that the precept amount has been agreed in full Council and clearly minuted</i>	YES	The precept for 2020/2021 was approved by full council at a meeting held 20 th November 2019.
<i>Regular reporting of expenditure and variances from budget</i>	Partly Met	The minutes examined evidence monthly expenditure items with an annual review of the current financial situation detailed at the full council meeting held 17 th March 2021, however a report on variances from the budget was only carried out at year end. Recommendation: The council are reminded Financial Regulations 4.8 state the RFO shall regularly provide the council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget. Reviewing the budget against actual expenditure regularly gives members early warning about the likelihood of overspend or surplus to enable informed decision making. The councils Standing Orders 17.c Accounts and Accounting Statements states at least quarterly reconciliations along with a comparison of the budget for the financial year highlighting any actual or potential overspends.

<p><i>Reserves held – general and earmarked⁶</i></p>	<p>YES</p>	<p>The councils final accounts show general reserves in the sum of £11,452 with earmarked reserves in the sum of £8,600 with overall reserves standing at £20,052.</p> <p>Guidance as issued by Proper Practices states that it is regarded as acceptable for councils to hold a general (non-earmarked) reserve equal to 3 to 12 months of net revenue expenditure.</p> <p>Comment: Council should note guidance as issued under the Practitioners Guide which states that an authority needs to have regards to the need to put in place a General Reserve Policy and review the level and purpose of all general and earmarked reserves at least annually.</p>
<p>Additional comments: The budget should be prepared and agreed prior to / at the same time of the precept being set, this would then determine the level of precept required. The council's Financial Regulations 3.4 state the approved annual budget shall form the basis of financial control for the ensuing year. There are no details made available to the public through the minutes or on the website detailing the breakdown of the budget for the year under audit.</p>		

⁶ In accordance with proper practices, the generally accepted minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three (3) and twelve (12) months of Net Revenue Expenditure

Section 6 – income controls		
The internal auditor will seek evidence to ensure income is correct managed – recorded, banked and reported and test mechanisms used to achieve this.		
Evidence		Internal auditor commentary
<i>Is income properly recorded and promptly banked?</i>	YES	Several items of income were cross-checked against the cashbook and bank statements and found to be in order. In accordance with proper practices the Responsible Financial Officer ensures that accounting records contain day to day entries of all sums of money. In accordance with the councils Standing Orders all income is reported to full council. The council received precept of £7,201.56 during the year under review in April and September. The council has not received CIL income since 2018/19 which it is assumed has since been spent as no longer forms part of the councils earmarked reserves.
<i>Is income reported to full council?</i>	YES	
<i>Does the precept recorded agree to the Council Tax Authority's notification?</i>	YES	
<i>If appropriate, are CIL reporting schedules in accordance with the Regulations?⁷</i>	N/A	
<i>Is CIL income reported to the council?</i>	N/A	
<i>Does unspent CIL income form part of earmarked reserves?</i>	N/A	
<i>Has an annual report been produced?</i>	N/A	
<i>Has it been published on the authority's website?</i>	N/A	
Additional comments: The councils accounts and minutes clearly identify all income received within the financial year under review.		

⁷ Community Infrastructure Levy Regulations 2010

Section 7 – petty cash		
The Internal Auditor will seek evidence that the Council has followed its own policies, procedures and verification processes and that these are up to date.		
Evidence		Internal auditor commentary
<i>Is petty cash in operation?</i>	N/A	The council does not hold any petty cash
<i>If appropriate, is there an adequate control system in place?</i>	N/A	
Additional comments:		

Section 8 – Payroll controls		
The Internal Auditor will check salaries are approved in accordance with PAYE, NI, Pension and that there is a clear understanding that the clerk is not self-employed. If the Clerk was recruited after 1 st April 201, evidence will be required to show compliance with the new requirements for the statement of employment, Induction, probation periods and training requirements. The Internal Auditor will also review how payroll is managed including evidence of approval of payslips.		
Evidence		Internal auditor commentary
<i>Do all employees have contracts of employment?</i>	N/A	Council had one employee on payroll at the end of 31 st March 2021 following a change of staff throughout the year. Employment contracts were not reviewed during the internal audit which was carried out by remote means.
<i>Has the Council approved salary paid?</i>	YES	
<i>Minimum wage paid?</i>	NO	
<i>Are arrangements in place for authorising of the payroll and payments to the council? Does this include a verification process for agreeing rates of pay to be applied?</i>	YES	The payroll function is operated in accordance with HM Revenue and Customs guidelines. There are suitable payroll arrangements in place which ensures the accuracy and legitimacy of payments of salaries and wages, and associated liabilities and as such the council has complied with its duties under employment legislation.
<i>Do salary payments include deductions for PAYE/NIC? Is PAYE/NIC paid promptly to HMRC?</i>	YES	In accordance with proper practices PAYE Taxes and employee and employer National Insurance Contributions (NIC) are calculated and recorded for the employee.
<i>Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?⁸</i>		Recommendation: With a new member of staff commencing employment March 2021 council should ensure that it records evidence that it has complied with its duties as an employer with regards to automatic enrolment and that it has completed and submitted a declaration of compliance to the Pension Regulator.
<i>Are there any other payments (eg: expenses) and are these reasonable and approved by the Council?</i>	N/A	Comment: For reference, council should note the changes in the Practitioners Guide for 2020 on the treatment of what can be included as employment expenses within the Annual Governance and Accountability Guide 2020.

⁸ The Pension Regulator – [website click here](#)

Additional comments:

Section 9 – Asset control		
<p>The Internal Audit will be seeking to establish if there is a list of assets in accordance with proper practices including the date of acquisition, location and value. This extends to checking policies (with evidence of review) and that the Council has applied the documented approach in practice. The Internal Auditor will check not only valuation processes but the existence of reserve budgets for depreciation and adequacy of insurance. A clear audit trail should be available when items are purchased including minutes to evidence approval.</p>		
Evidence		Internal auditor commentary
<i>Does the Council maintain a register of material assets it owns and manage this in accordance with proper practices?⁹</i>	YES	The Asset Register is available to view on the council's website and reflects those items listed under insurance and within the Parish Councils remit for maintenance and ownership. The declared value on the Asset Register March 2021 is £212,095.36 which is an increase from the previous reported year which was detailed within the Internal Audit report at £200,553.57.
<i>Are the value of the assets included? (note value for insurance purposes may differ)</i>	YES	
<i>Are records of deeds, articles, land registry title number available?</i>	NO	
<i>Is the asset register up to date and reviewed annually?</i>	YES	It is assumed that the Asset Register value of £212,095.36 will be stated on the AGAR which had not been completed at the time of the Internal Audit review.
<i>Cross checking of insurance cover</i>	YES	Content Items (other property) are identified under the All Risks Category and have been given an insurance value of £50k in accordance with the policy operated by the insurance company.
<p>Additional comments: Councils should be mindful of the guidance in Governance and Accountability for Smaller Authorities for England (March 2019) regarding valuation of assets and ensured that where the acquisition value of the asset at the time of first recording is used, that method of valuation has been consistently applied and if / where amended it will need to publish and provide explanations in changes in value to any previously recorded assets.</p>		

⁹ Governance and Accountability for Smaller Authorities in England – March 2019

Section 10 – bank reconciliation		
The internal auditor will seek to establish that the Council understands and can evidence good practice and internal control mechanisms in relation to bank reconciliation.		
Evidence		Internal auditor commentary
<i>Is bank reconciliation regularly completed and reconciled with the cash book and cover every account?</i>	YES	Several samples were tested. There is evidence of good financial practice and the council has implemented a system whereby bank reconciliation is correctly verified by the council. This not only safeguards the Responsible Financial Officer but also fulfils an internal control objective.
<i>Do bank balances agree with bank statements?</i>	YES	Bank balances agree with period end and, as at year end (31 st March) for the period under review the balance across the council's accounts stood at £20,554.95.
<i>Is there regular reporting of bank balances at Council meetings?</i>	YES	Financial reports are submitted to the council on a monthly basis. The council is aware that in accordance with proper practices the bank reconciliation is a key tool for management as it assists with the regular monitoring of cash flows and therefore aids decision making.

Section 11 – year end procedures		
Evidence		<i>Internal auditor commentary</i>
<i>Are appropriate accounting procedures used?</i>	YES	Accounts are produced on a receipts and payments basis and all found to be in order.
<i>Financial trail from records to presented accounts</i>	YES	The end of year accounts and supporting documentation were well presented for the internal auditor to review.
<i>Has the appropriate end of year AGAR¹⁰ documents been completed?</i>	NO	As the council is a smaller authority with a gross income and expenditure not exceeding £25,000. It is assumed that the council will complete Part 2 of the AGAR. Comment: This was not completed at the time of the Internal Audit.
<i>Did the Council meet the exemption criteria and correctly declared itself exempt?</i>	YES	As the Parish Council had a gross income and expenditure not exceeding £25,000 it was able to declare itself exempt from a limited assurance review.
<i>During the period in question did the small authority demonstrate that it correctly provided for the exercise of public right as required by the Accounts and Audit Regulations 2015?</i>	NO	The Internal Auditor was unable to confirm that the details of the arrangements for the exercise of public rights for the period ending 31 st March 2020 were carried out in accordance with legislation due to the documentation not being provided on the website.
<i>Have the publication requirements been met in accordance with the Regulations?¹¹</i>	Partly Met	The council has mostly complied with the requirements of the Regulations for smaller authorities with income and expenditure not exceeding £25,000 and published the following on the public website: Section 1 – Annual Governance Statement of the AGAR Section 2 – Accounting Statements for the AGAR Analysis of variances Bank Reconciliation

¹⁰ Annual Governance & Accountability Return (AGAR)

¹¹ Accounts and Audit Regulations 2015

		Recommendation: The Notice for the period of exercise of public rights and other information required by Regulation 15 (2), Accounts and Audit Regulations was not published on the council's website.
<i>Additional comments:</i>		

Section 12 – internal audit		
The internal auditor will revisit weaknesses and recommendations previously identified to see if these have been addressed. They will also check if any changes introduced require further verification to ensure effectiveness of the corrective action taken.		
Evidence		<i>Internal auditor commentary</i>
<i>Has the previous internal audit report been considered by the Council?</i>	YES	The Internal Audit Report for the year ending March 2020 was considered and reviewed by full council on 20 th January 2021.
<i>Has appropriate action been taken regarding the recommendations raised?</i>	NO	At the council meeting held 20 th January 2021 it was advised the clerk and Chair would draw up an action plan to ensure recommendations were complied with to present back to the council. This has not yet been detailed within the minutes as taking place.
<i>Has the Council confirmed the appointment of an internal auditor?</i>	YES	SALC was appointed to act as the Councils Internal Auditor at a meeting of the Council on 21 st February 2021 for the period under review.
Additional comments:		

Section 13 – external audit for the period under review		
The internal auditor will revisit the external audit so that previous weaknesses and recommendations can be taken into account.		
Evidence		<i>Internal auditor commentary</i>
<i>Has the previous external audit report been considered by the Council?¹²</i>	N/A	As the council was a Smaller Authority with income and expenditure not exceeding £25,000 it was not subject to an intermediate review by the External Auditors.
<i>Has appropriate action been taken regarding the comments raised?</i>	N/A	
Additional comments:		

¹² Regulation 20 Accounts and Audit Regulations 2015 – *following completion of an audit the Council should note that it is the Council as a whole (ie. All members) and not a committee that should receive and consider the audit letter (including Annual Return and Certificate) from the local auditor as soon as reasonably practicable and the minutes should reflect that these have been received.*

Section 14 – additional information		
The internal auditor will look for some additional evidence of good record keeping, compliance with data protection regulations, freedom of information and website accessibility regulations.		
Evidence		<i>Internal auditor commentary</i>
<i>Was the annual meeting held in accordance with legislation?</i> ¹³ <i>(note to auditor- emergency Regulations as a result of the COVID-19 pandemic)</i> ^{f14}	N/A	For the period in question, as a result of the COVID-19 pandemic the council chose not to hold an Annual Meeting of the Parish Council. <i>The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020</i>
<i>Is there evidence that Minutes are administered in accordance with legislation?</i> ¹⁵	N/A	The Internal Auditor was unable to check as virtual audit. Unsigned minutes are provided on the website.
<i>Is there a list of members' interests held?</i>	YES	Evidence was seen on the East Suffolk Council website of the Register of Interests for all current Parish Councillors. Council is reminded that whilst the Monitoring Officer of the council must arrange for the Parish Councils register of members interests to be available for inspection on their website, where the parish council has its own website, its register of members interests must also be published on that site. (Openness and transparency on personal interests – A guide for councillors – August 2012)
<i>Does the Council have any Trustee responsibilities and if so are these clearly identified in a Trust Document?</i>	N/A	The council does not have any trustee responsibilities.
<i>Has the Transparency Code been correctly applied and information published in accordance with current legislation?</i>	Partly Met	To ensure compliance with the requirements of the Transparency Code for smaller authorities (turnover not exceeding £25,000), council is aware that the following should be published on a public website for the year 2019/2020 not later than 1 July: Internal Audit Report List of Councillors Responsibilities

¹³ The Local Government Act 1972 Schedule 12, paragraph 7 (2) and Schedule 15 (2)

¹⁴ The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020

¹⁵ Public Bodies (Admission to Meetings) Act 1960, Local Government Act 1972 and the Localism Act 2011

		<p>Items of Expenditure Above £100 including recoverable and non-recoverable VAT End of Year Accounts Annual Governance Statement Asset Register And that agendas of meetings, associated papers and minutes should be published in accordance with the prescribed timescales as set out in the Transparency Code for Smaller Authorities – December 2014. Recommendation: The council should ensure the missing documents are uploaded to the website at their earliest opportunity.</p>
<i>Has the Council registered with the Information Commissioner's Office (ICO)?¹⁶</i>	YES	A subscription payment of £40 was made 17 th February 2021 for the 21/22 Registration.
<i>Is the Council compliant with the General Data Protection Regulation requirements?</i>	YES	<p>The council has taken steps to ensure compliancy with a selection of policies and procedures all recently reviewed with a documented date for further planned reviews. Comment: Council should consider the adoption of further policies to ensure that its responsibilities and obligations in terms of the collecting, using and protecting of personal information is in accordance with the provision of the GDPR.</p>
<i>Has the Council published a website accessibility statement on their website in line with Regulations?¹⁷</i>	NO	A Website Accessibility Statement could not be seen on the website.
<i>Is there evidence that electronic files are backed up?</i>	N/A	Unable to check due to being a remote Internal Audit
<i>Do terms of reference exist for all committees and is there evidence these are regularly reviewed?</i>	N/A	
<p>Additional comments: It is acknowledged that over the course of the year there has been 3 changes in clerk with the need for a locum to cover to cover a 4 month period before a further clerk being employed and it is recognised that there may have been difficulties in consistency and compliance.</p>		

¹⁶ Data Protection Act 2018

¹⁷ Website Accessibility Regulations 2018

SALC Internal Audit Report template (v.2)
Last reviewed: 12th April 2021

Signed: *J. Lawes*

Date of Internal Audit Visit: N/A

Date of Internal Audit Report: 10/05/2021

On behalf of Suffolk Association of Local Councils