JDH Business Services Ltd

Prestbury Parish Council

Internal Audit 2020/21

 The internal audit was carried out by undertaking the following tests in the AGAR Annual Return for Local Councils in England:

1. Checking that books of account have been properly kept throughout the year
2. Checking a sample of payments to ensure that the Council’s financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
3. Reviewing the Council’s risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
4. Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council’s reserves are appropriate
5. Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
6. Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved, and VAT is correctly accounted for
7. Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
8. Checking the accuracy of the asset and investments registers
9. Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
10. Year-end testing on the accuracy and completeness of the financial statements

**Conclusion**

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council’s system of internal controls is in place, adequate for the purpose intended and effective. As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

**JDH Business Services Limited**

|  | **ISSUE** | **RECOMMENDATION** | **FOLLOW UP** |
| --- | --- | --- | --- |
| 1 | Internal control objective (Objective M) in the AGAR internal audit certificate requires internal audit to conclude whether the Public Rights Notice during the previous Summer (2019/20 financial year) was compliant with the Regulations.However, the council did not secure and retain evidence that the notice was published on the website in accordance with the regulations. Therefore, we have had to select ‘not covered’ in the AGAR internal audit certificate. | *The council must ensure evidence is retained to demonstrate compliance with the legal requirements for the Annual Notice of Public Rights.* |  |
| 2 | There is no evidence in the full council minutes of the council receiving and reviewing regular budgetary control information. | Progress against the budget should be regularly monitored by council through the review of budgetary control reports. |  |
| 3 | The LITE online payment was not signed by 2 councillors to evidence authorised in advance as per FRs. | *Online payments should be authorised by two councillors as required by the Financial Regulations.* |  |
| 4 | General reserves are in excess of 100% of the precept. Sector guidance is that the general reserves of the council, which represent the contingency for unforeseen events, should be between 25% and 100% of the annual precept.There appears to be an earmarked reserve of £35,000 but this is not clearly disclosed as an end of year earmarked reserves statement approved by full council.  | *The council should annually review the adequacy of the level of general and earmarked reserves with reference to sector guidance.**Year end earmarked reserves should be clearly disclosed in the accounts and authorised by full council.* |  |
| 5 | The football field valuation method has changed which has resulted in a reduction in value from £11050 to £1. In addition, a number of changes to the land and property assets were requested by the external auditor in the prior year audit. The Practitioner’s Guide states the following: *2.27. The value of the cell at Line 9 is taken from the authority’s asset register which is up-to-date at 31 March and includes all acquisition and disposal**transactions recorded in the cash-book during the year. Long term loan assets should be included at the amount originally advanced, less any subsequent repayments. Authorities need to apply a reasonable approach to asset valuation which is consistent from year to year. Where an authority**changes its method of asset valuation during a financial year, it will need to restate the prior year’s figure in Line 9 of the Annual Governance and Accountability Return.*Therefore, the council need to restate the 2019/20 AGAR comparative figure for fixed assets on a consistent basis with 2020/21.  | *Where changes in valuation methods are applied to fixed assets, the prior year AGAR comparatives must be restated on a consistent basis. This will also apply to fixed assets identified that were also owned in the prior year but had been omitted from the asset register.* |  |
| **2019/20 internal audit** |
| 1 | **RECURRING ISSUE****From April 2019 to the end of October 2019 the clerk/RFO function was delivered by a personal service company.** **S151 of the L.G. Act 1972 requires the parish council to appoint a Responsible Financial Officer (RFO). A limited company cannot perform the RFO role of a parish council as the RFO has to be a living person. Therefore the council has been operating in breach of the L.G. Act 1972.** | ***The limited company arrangement for clerk/RFO services ceased at the end of October 2019.******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. This means that parish clerks:*** ***• can never be considered as self-employed for tax or NIC purposes; • cannot be paid ‘gross’; and*** ***• fall to be taxed under PAYE******Therefore, the council should liaise with HMRC over this situation and ensure any PAYE/NIC liabilities due are paid.*** | **Currently being implemented – the council are consulting with HMRC regarding potential liabilities** |
| 2 | The risk assessment was not updated, reviewed and approved by full council during the financial year. | *The risk assessment should be reviewed and approved by full council in each financial year.**NB. The draft annual governance statement completed for 2019/20 includes a YES for risk assessment but no risk assessment was approved by full council in the year.* | **Implemented** |
| 3 | The draft annual governance statement (AGS) completed for 2019/20 includes a NO for Internal Audit in box 6 but the council does have a comprehensive independent internal audit carried out by ourselves annually. The reason provided for the NO response is that councillors were not carrying out checks for part of the financial year, however, this is not the same as an independent internal audit for a local council; the internal control checks carried out by councillors should be covered in Box One of the AGS. | *The council need to revisit the response to section 6 on the AGS* | **Implemented** |
| 4 | RECURRING ISSUEPrior to January 2020 there is no evidence in the minutes of the council receiving and reviewing regular detailed budgetary control information showing expenditure against budget including projected outturn for the year.The budget set for the 2019/20 financial year does not take into account of *‘an amount that the council estimates will be appropriate to meet future estimated expenditure’* (ie to hold in reserves). This is a requirement of the Local Government Finance Act 1992.  | *Minutes should clearly evidence the regular review of budgetary control information including the projected outturn for the financial year.**The annual budget to support the precept should take account of brought forward and carried forward reserves.* | **See 2020/21 issues** |
| 5 | RECURRING ISSUEExpenditure testing identified the following for the period prior to November 2019:* the minutes do not record the payments approved, either as a total that can be agreed to the payments schedule, or as individual payments. Therefore, there is no audit trail from the minutes to the payments that were actually approved.
* No supporting invoices/vouchers for some transactions
* Evidence of invoices paid without authorisation by council
 | *Minutes should at least record the total of payments approved as per the payments schedule.**Supporting invoices/vouchers should be retained for all expenditure**All expenditure should be authorised by council* | **Implemented** |
| 6 | There is a new internal control objective (Objective L) in the AGAR internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the previous Summer (2018/19 financial year) was compliant with the Regulations. Due to the absence of any evidence with regard to the display of the notice, we have concluded the council did not comply with the requirements for the Public Rights Notice for 2018/19. | *The council should ensure compliance with the legal requirements for the Annual Notice of Public Rights.* | **See 2020/21 issues** |
| 7 | There is no lease register in place and there is evidence in the information provided by the RFO that rents from leases had not been collected. | *A lease register needs to be established to ensure rents from leases are invoiced and collected on a timely basis and rent reviews are carried out at the expiry of leases.* | **Implemented – the council has followed up all amounts owed by lessees** |
| 8 | The updated model Financial Regulations refer in section 11.) to a Purchase Order (PO) system (which would also clearly evidence the authority to spend). However, there was no evidence a PO system is currently in place.  | *If the Purchase Order section of the FRs is an accepted requirement by council, then the council should establish a sequential Purchase Order system, which would be signed according to the Authority to Spend requirements of the FRs* | **Implemented** |
| **2018/19 internal audit** |
| 1 | **Financial Regulations (FRs)****We were informed that previous members and employees still have login access to the main bank account. Therefore, any two ex ‘signatories’ could potentially withdraw up to £50,000 per day from the main bank account.****Section 4 of the FRs is not clear what the Authority to Spend is for items of expenditure between £500 and £1000. We were informed that knowledge of the Authority to Spend section of the adopted NALC FRs needs to be improved.**  | ***The council should only ever permit current councillors/employees to have access to the bank account, in accordance with the Financial Regulations. The required changes to banking access need to be made urgently.******The council should ensure all expenditure levels are covered by the Authority to Spend in Section 4 of the FRs and that there is clear understanding of this section at the council.***  | **Access to the bank account has been resolved and Financial Regulations have been updated** |
| 2 | **The minutes record the appointment of an individual to the clerk and RFO role with a set SCP and weekly hours. However, the minutes then record that the individual is appointed as a contractor. The minutes also record significant solicitor fees incurred to produce a contract ‘to ensure IR35 compliance’, Further review identified that in fact the RFO ‘contractor’ is being paid gross through a limited company.****S151 of the L.G. Act 1972 requires the parish council to appoint a Responsible Financial Officer (RFO). A limited company cannot perform the RFO role of a parish council as the RFO has to be a living person. Therefore the council has been operating in breach of the L.G. Act 1972.** | ***The current position whereby a limited company is delivering the clerk and RFO role should cease as soon as possible.*** ***The individual should have been appointed as an employee and 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. This means that parish clerks:*** ***• can never be considered as self-employed for tax or NIC purposes; • cannot be paid ‘gross’; and*** ***• fall to be taxed under PAYE******Therefore, the council should liaise with HMRC over this situation and ensure any PAYE/NIC liabilities due are paid.*** | **See 2019/20 issues** |
| 3 | There are a number of Working Groups/Parties that appear to be able to commit the council to expenditure for events.  | *To ensure no working group can take financial or non-financial decisions, the council should urgently review options for the way forward which should as a minimum consider the following:*1. *All working groups will become sub-committees of the council*
2. *Working groups continue but with a clear Terms of Reference and associated internal controls preventing any decisions being made by the groups or commitments to expenditure*
3. *Officers carrying out the functions of some or all working groups*

*The option chosen by the council should be implemented promptly after the council decision.* | **Implemented – the Events working group was changed to a sub-committee of the council** |
| 4 | There is limited evidence in the minutes of the council receiving and reviewing regular budgetary control information showing expenditure against budget including projected outturn for the year.The budget set for the financial year does not take into account of *‘an amount that the council estimates will be appropriate to meet future estimated expenditure’* (ie to hold in reserves). This is a requirement of the Local Government Finance Act 1992. A tender exercise was carried out during the year for the car park project with the final cost being approximately 50% more than was originally estimated. No analysis was provided for internal audit to evidence the impact of the total expenditure on the car park project on total reserves of the council. | *Minutes should clearly evidence the regular review of budgetary control information including the projected outturn for the financial year.**The annual budget to support the precept should take account of brought forward and carried forward reserves.**The council should produce an analysis of the total expenditure and income related to this project and the expected impact of the reserves of the council.* | **See 2019/20 issues** |
| 5 | No income records were provided to substantiate the income from the Christmas and Summer Fair events. It was not possible, therefore, to identify whether any expenditure relating to the events had been paid for by cash received. The bankings for the December 2017 Christmas event were not made until May/June 2018. | *Income records should be retained for all events. If any expenditure is financed from cash income from events a record of the transaction and voucher should be retained. Income form events should be banked promptly to the reduce risk of loss of cash.* | **Implemented** |
| 6 | Expenditure testing identified the following:* The minutes do not record the payments approved, either as a total that can be agreed to the payments schedule, or as individual payments. Therefore, there is no audit trail from the minutes to the payments that were actually approved.
* Although BACS payment schedules are initialed by two members, no date is provided so it is not possible to evidence each BACS payment was authorised by two members before payment, as required by the Financial Regulations adopted in the financial year.
 | *Minutes should at least record the total of payments approved as per the payments schedule.**When BACS payments are pre-authorised the date of the member authorisation should be recorded. (NB If the council moves online banking to the Unity Trust, as noted by the current clerk, then members will be able to login to the bank to provide two online authorisations for all payments.)* | **See 2019/20 issues** |
| 7 | A website for the parish council does not currently appear to be operational. Therefore, the information recommended by the Transparency Code is not available for the public to view on a website. | *The council should ensure that a website is established that includes, inter alia, the information recommended in the Transparency Code.* | **Implemented** |
| **IMPORTANT GUIDANCE NOTE****INTERNAL AUDIT CERTIFICATE in the AGAR**There is a new internal control objective (Objective L) in the 2018/19 internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the **previous Summer** was compliant with the Regulations. This is pre-filled for 2018/19 but in order to test this and conclude YES or NO for the 2019/20 internal audit we would need to receive with the 2019/20 books and records:* A copy of the completed 2018/19 Notice of Public Rights and Publication of the Unaudited Annual Governance and Accountability Review
* A dated photograph showing the first day of the Notice of Public Rights on the noticeboard and/or a dated computer screenshot showing the first date of the Notice of Public Rights on the website for 2018/19

Our approach to this new requirement will be to conclude NO if we have not received the above evidence and explain on the AGAR that we received insufficient evidence to be able to conclude YES; we would also conclude NO if the dates advertised were not compliant with the Regulations.This will be a new ongoing requirement for internal audit, as well as verifying whether certain smaller councils meet the exemption criteria from an external audit. Therefore, for the 2019/20 internal audits there will be additional time charged at a fixed fee of £9 + VAT per local council to complete the new requirements. |
| **2017/18 internal audit** |
| 1 | No risk assessment was carried out during the year and reviewed and approved by council | *The Risk Assessment should be reviewed, updated and approved each financial year. Good practice examples have been provided to the acting RFO.* | **Implemented** |
| 2 | ReservesReserves are 175% of the precept level. Sector guidance is that the general reserves of the council, which represent the contingency for unforeseen events, should be between 25% and 100% of the annual precept.Although reserve levels were mentioned in a precept discussion, no account appears to have been taken of the opening and closing balances of the Council as part of the actual precept setting process. There are no disclosed earmarked reserves in the year end accounts. | *Currently the level of general reserves could be deemed excessive by reference to sector guidance for adequate levels of general reserves.* *If the council has identified projects and community schemes for which it wishes to earmark a portion of reserves these should be clearly disclosed in the year end accounts as earmarked reserves, and this could also then reduce remaining general reserves to more reasonable levels.**The council should ensure when setting the precept that the budget requirement is calculated in accordance with the Local Government Finance Act 1992 by taking into account:** *all expenditure estimated to be incurred in the year*
* *an allowance for unforeseen expenditure – this could be linked to a variation in inflation expectations*
* *an amount that the council estimates will be appropriate to meet future estimated expenditure (ie to hold in reserves or to replenish general reserves in accordance with a reserves policy)*
* *the amount estimated by the council to meet expenditure relating to previous financial years that has not already been provided for (creditors and accruals and other liabilities)*
 | **2018/19 follow up – all surplus funds are committed to the car parking project** |
| 3 | The Financial Regulations are dated 2007 and the Standing Orders are dated 2008.Online banking has been implemented but the Financial Regulations have not been updated to provide regulations covering online banking.The procurement requirements of the current Financial Regulations (FRs) are not clear. Formal tenders are required if a contract is above £30000. There are no procurement requirements stipulated if a contract or supply is between £1000 and £30000 (eg the clerk should secure 3 quotes). The FRs also state that if less than 3 tenders are received for contracts above £2000 then the council can procure as they see fit, but this £2000 threshold is inconsistent with the £30000 tender threshold. It would be difficult for an RFO to apply these inconsistent procurement regulations. | *The council should update the Financial Regulations by comparing with the current NALC model Financial Regulations and updating accordingly, including appropriate regulations for procurement and online banking* | **Implemented, however, see issue 1.) 2018/19.** |
| 4 | The minutes indicate that there are VAT issues with respect to previous financial years including unclaimed VAT. | *A reconciliation between the VAT reclaims submitted and the annual cash book VAT should be carried out for the previous financial years where council consider that VAT has been underclaimed. The next VAT reclaim should be adjusted for all prior year items identified and submitted promptly to HMRC.* | **Implemented – VAT has been reclaimed up to and including 2017/18** |
| 5 | No integrated cash book is maintained by the council that contains all individual receipts and payments transactions. Instead, the current cash book format comprises a monthly vertical budget analysis that can only accept one transaction under the budget heading. If there is more than one transaction in a month a supplementary ‘Multiple Transaction Sheet’ is completed. A separate spreadsheet includes totals from these monthly cash and bank sheets for the financial year. | *The current system for completely and accurately recording all receipts and payments transactions of the council is not fit for purpose and should be replaced with an integrated cashbook. This could be adequately be provided by a spreadsheet that records all transactions under extended cash book budget headings for receipts and payments categories.* | **Implemented – SCRIBE software now used** |
| 6 | The level of fidelity insurance cover is £150,000. This insurance should cover the maximum projected cash and bank balances in the financial year. For 2018/19 this level is estimated as year-end cash and bank balances plus the next precept instalment, which is in excess of the current level of fidelity insurance cover.  | *The council, under s114 of the Local Government Act 1972, must take sufficient security of officers handling money. The council does this by reviewing the level of fidelity cover as part of the annual risk assessment.* *The fidelity insurance cover should be increased to adequate levels which is generally accepted as the maximum projected cash and bank balances a council can hold at one time in the financial year.**The adequacy of fidelity insurance cover should be reviewed annually as part of ongoing risk assessment.* | **Implemented** |
| 7 | Fixed AssetsOnly the year of purchase is often recorded in the asset register for additions, so it is not possible to allocate fixed assets to the financial year they were purchased.Fixed assets are recorded as £108520 in the annual return and asset register. This is an increase of £10187 over the 2016/17 certified fixed asset figure. However, this does not equate to additions to the 2016/17 asset register at purchase price less disposals at carrying value. No reconciliation is provided or year end variance analysis to explain the changes in fixed assets. | *The month and year of purchase should be recorded in the asset register.**The council should review the 2017/18 fixed asset register with reference to the 2016/17 certified fixed asset figure and ensure the correct figure is disclosed for 2017/18. The Practitioners’ Guide requires that assets should be valued at purchase cost if this is known (or an insurance proxy that doesn’t change over time),* ***therefore, the only movement in fixed assets each year should be for additions at cost and disposals at carrying value.*** | **Resolved – the asset register had been restated for 2016/17.** |
| 8 | Petty Cash is included in fixed assets which is incorrect. It should be disclosed as part of year end cash balances and petty cash expenditure included in the expenditure of the council.  | *Petty cash balances should be removed from the fixed asset register and disclosed in year end cash and bank balances.**The petty cash is rarely used as expenses are reimbursed directly based on expenses claims. Therefore, if a petty cash system is not to be continued the cash should be paid into the council bank account.* | **Implemented – petty cash system no longer in place** |
| 9 | Sample testing of payments identified that the internal control whereby the BACS sheet is attached to the invoice and then reviewed and signed by a member to verify the payment is agreed and paid to the correct supplier bank accounts, is not operating effectively. For instance, the BACs sheet for the significant online payment to Friends of Prestbury on 17/11/2017 was not signed.  | *Members should ensure that internal controls over the verification of payments are applied throughout the financial year.* | **See 2018/19 issues** |
| 10 | STAFF COSTSThe corrected monthly expenditure control sheet completed by the acting RFO totals £25173.06, and £25308 is disclosed in the draft Annual Return for staff costs. The difference is £135 (rounded) which means the Annual Return figure includes mileage costs. Mileage expense paid at up to 45p per mile is not a taxable benefit and therefore should not be included in Staff Costs; the amount should be included in Other Payments in the Annual Return. | *Council should ensure the correct figure for Staff Costs is disclosed in the Annual Return for 2017/18****The Governance Guide for Smaller Councils states in section 2.15 that ‘…the staff costs cell includes all the costs incurred by the authority in relation to the employment of its staff. It includes employment expenses which are benefits (for example mileage and travel expenses)…..’******The Guide is clear in that the expense must be a Benefit (ie a Benefit in Kind) which is a disclosable item on a P11d. Mileage expenses are a benefit that is disclosable on a P11d only to the extent that they are in excess of the 45p tax neutral rate permitted by HMRC.*** | **2017/18 annual return amended** |
| 11 | The acting RFO has carried out a robust 100% check of invoices to the monthly expenditure control sheet and supplementary multiple transaction sheets in order to correct the cash book monthly summary and complete the cumulative annual bank reconciliation. A number of issues have been identified by the acting RFO including missing VAT invoices, VAT not claimed, and unsigned BACs sheets. For instance, see February 2018 accounts file where BACs sheets are not signed as evidence of review by a member. | *The council should review the issues identified in the monthly accounts by the acting RFO and ensure VAT invoices exist for all standard rated supplies, the VAT reclaim is complete and accurate, and that unsigned BACs sheets are reviewed and signed to ensure the correct supplier bank accounts were paid* | **Implemented** |
| 12 | Data Protection Law changed significantly on May 25th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect.GDPR replaces the 1998 Data Protection Act and it will impose new obligations on Data Controllers and Data Processors and provides enhanced rights for individuals. Compliance with GDPR could have resource implications for local councils. | *The impact of GDPR on the council should be identified through review of ICO and NALC guidance and the Data Protection policy, risk assessment and internal controls should be updated accordingly.**A GDPR compliant data protection policy and a document retention policy should be adopted. Privacy notices should be developed internally for all staff, members and volunteers, and externally for residents. Data processing agreements should be established where external data processors are used (eg payroll agent).* | **Ongoing implementation – GDPR policy in place** |
| 13 | The audits carried out quarterly by members consistently raise the issue that the independent internal auditor should be carrying out a variance analysis of the accounts. **This is not the role of the independent internal auditor.** The RFO should provide members with the year end, variance analysis for all material variances, and the cumulative bank reconciliation, as prescribed by the supporting documentation to the AGAR Annual Return. This should then be approved by council and submitted to the external auditor. | *The council should ensure the RFO completes the year end variance analysis.* | **Implemented** |