

Public Sector Audit

Flamborough 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 cash book is maintained on spreadsheets on a receipts and payments basis and is arithmetically correct.</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>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 noted that the payments made to the Clerk to cover the cost of working from home have been included in staff costs in the cash book and hence included in box 4, staff costs, on the AGAR.</p>

		<p>It is also noted that the heading of "Staff costs - box 4" in the cash book includes a column for staff training costs. The Government considers these to be administrative expenses and requires that such costs be included in "Payments - box 6" on the AGAR.</p> <p>Bank reconciliations were undertaken to the end of June, July, August, September and December 2020 and January and March 2021 to confirm that the cash book and bank were in agreement</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The payments to the Clerk in respect of homeworking should be taken out of Staff costs in the cash book and re-analysed as administration under the cash book heading of "Payments - box 6." ● The column for staff training should be moved from "Staff costs- box 4" to "Payments - box 6" in order to correctly analyse any such future costs on the AGAR.
2	<p>Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?</p>	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p>Findings</p> <p>The council's Standing Orders and Financial Regulations were reviewed and approved by the council at the meeting held on the 20th October 2020. It is noted that both Standing Orders and Financial Regulations presented to audit have not been updated as recommended last year.</p> <p>Revised NALC Model Standing Orders, to acknowledge new legislation and changes in other requirements, were announced this week, and in July 2019 revised Model Financial Regulations, in respect of contract regulations, were issued by NALC.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● As recommended last year the council should update its Standing Orders and Financial Regulations to the latest NALC Models to reflect legislative changes. The latest NALC Models are available on the ERNLLCA website.

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 a large sample of payments throughout the year to ensure that there are fully approved and authorised invoices, the payments are correctly recorded in the cash book and they have been reported to council.</p> <p>I have reviewed the payments for completeness, accuracy, appropriate year of account, classification in the council's accounts and compliance with Financial Regulations.</p> <p>VAT has been correctly identified and recorded in the cash book for inclusion in the reclaim from HMRC. It is noted, however, that the invoices from Zoom do not include the company's VAT registration number, which is required on an official VAT invoice to enable the council to recover the VAT element of the payments it makes. It is noted that the Clerk submitted a VAT claim to HMRC on the 19th April 2021 and provided HMRC with a VAT registration number for the Zoom invoices. I have entered the VAT number into the HMRC VAT number checking tool and it does not recognise it as a valid VAT number, however.</p> <p>The council has correctly maintained a separate s.137 code in the cash book and expenditure totalling £45 has been coded to this during the year. The expenditure is appropriate for this power and is well within the statutory limit.</p> <p>A cheque book has not been provided to audit for review. The cash book, however, identifies that all council payments during the year were made by Direct Debit or BACS. The Clerk has confirmed that schedules of payments have been presented to council for authorisation and the minutes confirm this.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● For internal control purposes, when actual meetings re-commence, the council's monthly payment schedules should be signed as authorised by 2 council Members. ● The council should contact HMRC to:
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		<ul style="list-style-type: none"> ➤ Check whether the VAT registration number provided for Zoom is a valid UK registration number, and ➤ If it is, whether the council can recover the VAT element of these invoices in the absence of the VAT registration number being identified on the invoice.
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 a detailed Risk Register covering the functions, services, and risks of the council. Additional Risk Assessments were introduced in respect of the Covid 19 pandemic. The updated register was reviewed and approved at the council meeting held on the 20th October 2020.</p> <p>On the 16th March 2021 an inspection of the village green play area was undertaken by an independent play inspection company. It is noted that repair work requiring attention was identified by the report. The report was presented to council on the 19th April 2021 and noted.</p> <p>Weekly playground inspections have also been carried out and Inspection sheets have been completed noting any remedial action necessary. An asbestos survey was undertaken by a specialist company, on the 18th February 2021, of the buildings on the allotment site. When the public toilets have been open, they have also been inspected weekly.</p> <p>I have reviewed the council's insurance policy and the levels of indemnity are considered to be adequate. It was recommended last year that the council should check that Fidelity Guarantee cover provided by the policy includes council Members as well employees. It is noted on the record of actions from last year's audit report that this was checked and confirmed in June 2020.</p> <p>I have reviewed the council's arrangements for the security of electronic data. The computer is password protected and backed up to cloud on an ongoing basis. HMRC Basic Tools is backed up monthly onto an external device which is also password protected. It is also noted that Deeds and other documents are kept in a locked cupboard in a fireproof box.</p>

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 The Clerk prepared a detailed annual budget in the recommended format in support of its 2020/21 Precept; it was agreed by council on the 13th January 2020.</p> <p>Detailed Budget monitoring reports were presented to council for the months ending December 2020 and January and March 2021.</p> <p>The council's year end-balance at 31/03/20 totalled £61,019. The total balances comprise earmarked reserves of £41,653 for the replacement/updating of street lighting. The remaining balance of £19,366 represents the council's general balance and equates to 44% of the 2020/21 Precept. It is acknowledged that the receipt of current VAT claim will increase the level of general balances to 52% of the Precept, which is considered to be adequate for a council the size of Flamborough Parish Council.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Budget monitoring reports should be presented to council on a quarterly basis as council functions return to normal following the Covid pandemic.
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 The council's Precept was received in two instalments in April and September 2020. The council also received two VAT refunds, allotment rent, public toilet income, Northern Powergrid wayleaves, rent, donations, a refund from ERNLLCA for a cancelled training event and a small amount of bank interest.</p> <p>For the sample checked I have agreed income to the evidence presented to audit. I have agreed a large sample of allotment income to the charges per plot and half plot and the cash book and the bank.</p> <p>Minute 22/20(b) of the meeting held on the 20th October 2020 resolved that the charges for allotments for 2021/22 be increased to £40.00 for a plot and £20.00 for a half plot).</p>

		<p>Recommendation</p> <ul style="list-style-type: none"> ● If the council receives documentary evidence in support of income received in respect of wayleaves and rent, it should be submitted to audit for review and verification.
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. Any petty disbursements are reimbursed to the Clerk and council Members as part of the normal payment process.</p> <p>VAT expenditure has been separately analysed and identified in the cash book.</p> <p>Petty disbursements are reported to council 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>Both council employees have contracts of employment which contain clear terms and conditions.</p> <p>I have checked and agreed the gross pay each month for both employees to the contracts of employment, changes to terms and conditions and the 2020 NJC pay award.</p> <p>The employees are subject to PAYE and NI regulations and statutory deductions have been paid to HMRC.</p>
9	<p>Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?</p>	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The council's Asset Register was reviewed and approved at the council meeting held on the 20th October</p>

		<p>2020.</p> <p>The Asset Register has not been updated during the year and hence the total valuation as at the 31st March 2021 has remained the same as at the previous year-end. During the year it is noted that the council purchased a replacement flag at a cost of £64. The register currently identifies three flags at a valuation of £1; the valuation should therefore be amended to reflect the new purchase. A play area sign was purchased at a cost of £45 and gates for the playing field costing £3,505 were also purchased.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should update its Asset Register to reflect purchases made during the year at cost prices, excluding any VAT. ● The total valuation of assets held at the 31st March 2021 should be amended when the purchases during the year have been added.
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 were performed for June to September and December 2020 and for January and March 2021. They were presented to council for review and approval and have been signed as authorised by the Chairman since September 2020. It is noted that the Chairman has also signed the respective bank statements to confirm that they agree to the reconciliations. This is considered to be a key Internal Financial Control process and best practice.</p> <p>The council does not hold any investments.</p>
11	<p>Were Accounting statements prepared on the correct accounting basis (receipts and payments or</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,</p>

	<p>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>therefore, debtors and creditors have not been included.</p> <p>There is an audit trail from underlying financial records to the year-end statements.</p> <p>As noted in section 1 of the report and in accordance with revised Government guidance, staff homeworking allowance payments should be included in box 6, all other payments, and not box 4, staff costs, on the year-end Accounting Statement.</p> <p>The 2019/20 Internal Audit Report was approved by council on the 3rd August 2020.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Boxes 4 and 6 on the Accounting Statement should be amended to include staff home working allowance payments in box 6 and not box 4 in accordance with revised Government requirements. ● Following the recommendations in section 9 of this report, the total of council held fixed assets as at the 31st March 2021, declared in box 9 on the Accounting Statement, should be amended to agree to the revised total on the Asset Register.
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>The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
13	<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</p>	<p><u>Exercise of Public Rights</u></p> <p>Findings</p> <p>I have confirmed by a review of the council's website that, during the summer of 2020, 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 (as amended by S.I. 2020/404 - The Accounts and Audit (Coronavirus))</p>

	Audit Regulations 2015?	(Amendment) Regulations 2020).
14	Did the council comply with the publication requirements for the previous year's AGAR?	<p><u>Publication Requirements</u></p> <p>Findings I have reviewed the council's website and confirmed that the council published the correct documents as required by the Accounts and Audit Regulations 2015 (as amended by S.I. 2020/404 - The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020).</p> <p>It is recommended as best practice by the Government (in accordance with the publication requirements detailed on page 1 of the AGAR) that the council also publishes the Annual Internal Audit Report, page 3 of the AGAR.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should consider publishing the Annual Internal Audit Report on page 3 of the AGAR in accordance with recommended best practice.
15	Has the council met its responsibilities as a Trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings 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

The accounts and governance arrangements of the council have improved considerably during the year and the assistance of the Clerk of the council in the completion of this audit was much appreciated.

The consideration and adoption of the above recommendations will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place. The high priority recommendations should be implemented immediately and prior to the submission of the AGAR to the council for approval and the External Auditor for review.

The Clerk is to be congratulated on the improvements in governance and financial control whilst operating under very difficult circumstances during the current pandemic.

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

17th May 2021

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