

Public Sector Audit

Elloughton cum Brough Town 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.

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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 council's cash book is maintained on a computerised system designed by Rialtas Business Systems (RBS) for Town and Parish Councils. The system produces all the financial information required to facilitate the audit of the council's accounts and produce the Annual Governance and Accounting Return (AGAR).</p> <p>The system ensures that it is arithmetically correct and monthly bank reconciliation confirms that the cash book and bank are in agreement.</p> <p>The accounting records have been well maintained and balanced to the end of March 2023. Records are maintained to provide an audit trail from original receipts and invoices 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 reviewed and approved at the council meeting held on the on the 4th May 2021.</p> <p>NALC released an updated version of Standing Orders in April 2022, which includes revised wording in respect of the Government's procurement thresholds. The Clerk presented the revised Standing Orders to council on the 15th November 2022, and they were approved. The Clerk has confirmed that the Councillors have also been made aware of the revised Government's threshold of £30,000 in respect of Public Contracts. The council has been advised by ERNLLCA, however, to not update Standing Orders and Financial Regulations until updated Models have been issued by NALC.</p>

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 reviewed and tested a large sample of payments from April 2022 to March 2023.</p> <p>I have reviewed for accuracy, correct year of account, classification within the council's accounts and compliance with Financial Regulations. The Clerk has confirmed that, in accordance with Financial Regulations, quotations have been sought for the purchase of play equipment.</p> <p>I have tested to confirm that VAT has been identified and correctly recorded in the council's accounting system for inclusion in the VAT reclaim. It was identified that a large number of receipts/invoices that included VAT had been recorded in the accounting system without the VAT elements being recorded for the purpose of reclaim from HMRC. Also, on some occasions, VAT had been recorded in RBS in the absence of an official VAT invoice or receipt. Following the Interim and Final Internal Audits the accountant amended RBS to correct the previously incorrect treatment of VAT.</p> <p>Only one cheque has been issued during the year. The stub has been initialled by the signatories to confirm agreement with the details on the cheque and the documentary evidence seen in support of the cheque at the time of signature.</p> <p>Schedules of payments and receipts are included in the monthly finance papers issued to all Council Members. The minutes confirm that payments each month have been considered and approved for payment.</p> <p>A total of £5,550 has been coded to s.137 expenditure during the year. All expenditure coded to s.137 is appropriate for this statutory power and the total to date is well within the statutory limit set by the Government for 2022/23.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Whenever possible, official VAT invoices should be obtained from suppliers to enable the council to recover the VAT element of supplies.
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		<ul style="list-style-type: none"> ● VAT should only be identified in the cash book and reclaimed from HMRC when the council is in possession of an official VAT invoice or receipt. ● All VAT incurred by the council, when the council is in possession of an official VAT invoice or receipt, should be identified in the accounting records for reclaim from HMRC.
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's Risk Assessments continue to be held on a computerised system called Local Council Risk System. All Risk Assessments were reviewed and adopted at the council meeting held on the 21st March 2023. The Clerk is aware that the Risk Assessments require a detailed review, and the council has agreed that quotations from alternative providers be sought. Only one out of the three quotations sought, however, has been received to the date of the audit and the Clerk will endeavour to obtain at least one alternative quotation in the current financial year.</p> <p>The council also maintains a Health and Safety Policy which is contained in the Staff and Office Handbook which was re-approved by council in May 2022.</p> <p>The play area is inspected both quarterly and annually by an independent inspection company. The reports are presented to the Environment Committee and any actions required are authorised and quotations obtained if necessary. The Clerk has confirmed that, in addition to this, a member of council staff undertakes a daily inspection of the area whilst picking up litter, sweeping and general tidying. The results of these checks are noted on the member of staff's weekly timesheet and follow-up action is taken if necessary. A further check is undertaken weekly by another member of staff whilst inspecting other council assets such as notice boards, bus stops, defibrillators, etc. The Clerk has confirmed that detailed inspection sheets, which identify any issues found and the remedial action taken, are completed for all checks.</p>

		<p>I have examined the council's insurance policy and the indemnity limits are considered to be adequate, with the exception of Fidelity Guarantee. The Clerk is aware of this and the renewal, due on the 1st June, is currently being reviewed, including the level of Fidelity Guarantee required.</p> <p>I have reviewed the security of the council's electronic data. The council's computers are password protected.</p> <p>The Clerk has confirmed that all electronic data is backed up each day into a cloud storage system maintained by the council's IT providers.</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</p> <p>A detailed budget report was prepared for 2022/23 which was approved, together with the Precept, by Full Council on 19th January 2022.</p> <p>Actual expenditure against budget is monitored and reported quarterly to the Finance Committee. The first quarter report was reported to the meeting held on the 22nd August 2022 and a half year report was presented and approved by committee at the meeting held on the 2nd November 2022. The reports were accepted and agreed as being within guidance and expectations. On the 21st November, a further Finance meeting was held and a draft budget for 2023/24 was discussed using an up to date budget monitoring report prepared by the Clerk. On the 27th February 2023 the Finance Committee received a quarter 3 monitoring report, and it was minuted that the report be agreed, and that sufficient funds were available to complete the 2022/23 financial year in line with the original overall budget.</p> <p>The council's balances totalled £239,034 as at the 31st March 2023. £160,000 is held as earmarked reserves for specific projects and an election reserve; the balance of £79,034 represents the council's general reserve. The general reserve equates to 43% of the current year's Precept and is considered to be both adequate and prudent for a council the size of Elloughton cum Brough Town 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 The council's Precept for 2022/23 is £175,025.03 which agrees to the instalments of £87,512.52 received on 04/05/22 and £87,512.51 received on 03/10/22.</p> <p>The council also received income in respect of VAT refunds from HMRC, Allotment Association rent, sponsorship for the ice rink, ERYC grants, a grant from FFC Communities Foundation for playground equipment, a returned grant for Brough in Bloom and sundries.</p> <p>I have agreed income received to supporting documentation, the accounting system and the bank.</p>
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 The council maintains a petty cash system with a float of £200 which is reimbursed as required.</p> <p>I have checked all petty cash vouchers during the year to ensure that the expenditure is appropriate, and any VAT incurred has been identified and correctly recorded in the accounting system for reclaim from HMRC. In all cases expenditure was found to be appropriate, and VAT had been correctly identified and recorded in RBS.</p> <p>Schedules of petty cash payments are presented to council for review and approval. The individual petty cash payment vouchers are also available at each council meeting for review by Council Members if they wish.</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</p>	<p><u>Adequate payroll controls</u></p> <p>Findings All members of staff have received formal contracts of employment which contain clear terms and conditions.</p>

	<p>in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p>I have agreed all salary payments from April 2022 to March 2023 for each member of staff to contracts of employment, revised addendums to contracts for changes in terms and conditions, council minute authorisations and the revised NJC pay scales applicable to this period.</p> <p>Employees have been subject to PAYE and NI regulations and, for the sample checked, statutory deductions have been correctly paid to HMRC.</p> <p>Since the payroll has been prepared by the council's accountant, all calculations have been accurate.</p> <p>The External Auditor now requires me to check that the correct employer's pension percentage contribution has been applied. I have checked the East Riding Pension Fund portal for Elloughton cum Brough Town Council which confirms that the 19.3% being applied by the council for 2022/23 is correct.</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 within the Inventory software module in the RBS accounting system. This feeds into the year-end Fixed Asset figure on the AGAR and contains all the information needed for detailed asset management. The module also includes the insurance value for each asset held and, therefore, provides a check on the sums insured on the insurance policy schedule.</p> <p>The council does not hold any investments.</p> <p>The total value of assets on the Asset Register as at 31st March 2023 agrees to the declaration in box 9 on the Accounting Statement on the AGAR.</p>
10	<p>Were bank reconciliations performed on a regular and timely basis?</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings</p> <p>The accounting system automatically produces bank reconciliations each month for the council's current account, NS & I account, petty cash account and, now, the Nationwide Building Society Account. These are</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>printed and presented to each council meeting for review and authorisation. A further summary bank reconciliation is prepared, which includes all of the RBS reconciliations; this is signed as prepared by the accountant and signed as reviewed and authorised by the Chairman and one other Council Member. The bank statements for the council's current account are attached to the reconciliations to enable the Chairman to check that the reconciliations and the respective month end balances on the statements agree. The Chairman has signed the statements to confirm that this is the case and to authorise the reconciliation. This process is recognised as being a key element of the council's internal financial control environment. It is noted that the NS & I bank statements are only produced annually and when any transactions take place during the year.</p> <p>Minute FS72/22 of the Finance Committee meeting held on the 22nd August 2022 resolved to open a business account with the Nationwide Building Society. The account was successfully opened on the 16th February 2023 and a separate Nationwide bank account has been included in the council's accounting system to facilitate monthly reconciliations of this account.</p> <p>A review of the reconciliations confirms that there are no unusual or balancing entries.</p>
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 the underlying financial records to the year-end statements.</p> <p>The total value of council owned assets on the Asset Register as at 31/03/23 has been declared correctly in box 9, on the Accounting Statement.</p> <p>The Interim Internal Audit Report for 2022/23 was presented to the Full Council meeting held on the 15th December 2022 and the report was noted and accepted.</p>

12	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<p><u>Exemption Certificate</u></p> <p>Findings The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
13	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<p><u>Exercise of Public Rights</u></p> <p>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.</p>
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.</p>
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 continued to be maintained to a high standard and the assistance of the Clerk of the council in the completion of this audit was much appreciated. Page | 12

The internal financial control environment within the council is good with the exception of the identification and accounting for VAT to facilitate accurate reclaims from HMRC. The consideration and adoption of the above recommendations will strengthen the council's financial systems and procedures in this respect.

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

12th April 2023

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