

# *Public Sector Audit*

## Elloughton cum Brough Town Council

*Internal Audit Report for the year ended 31 March 2022*

*Public Sector Audit*

**UK©CS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616

# *Public Sector Audit*

## Elloughton cum Brough Town Council

### **Internal Audit Report for the year ended 31 March 2022**

#### 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 2022. 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.

*Public Sector Audit*

**UKCS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616

## 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

*Public Sector Audit*

**UKCS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616

The findings of the audit are summarised below

	<b>Test</b>	<b>Findings and Recommendations</b>
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p><b>Findings</b></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 of 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>Records are maintained to provide an audit trail from original receipts and invoices to the cash book and bank.</p> <p>As reported in section 4 of this report, it is noted that the council has resolved to place some of its funds with another banking institution.</p> <p>The council has purchased an Asset Inventory software module within its accounting package which assists in the preparation of the year-end Fixed Asset figure on the AGAR.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● When the process of transferring some funds to Nat West Bank, or another banking institution, has been completed, a separate account should be established in the RBS accounting system to identify these funds.</li> </ul>
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><b>Findings</b></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. Both Standing Orders and Financial Regulations are the latest NALC Models.</p>

		<p>The Government has announced revised thresholds in respect of tendering for public contracts, which came into effect on the 1<sup>st</sup> January 2022; NALC Model Standing Orders, however, have not yet been updated.</p> <p>Financial Regulation 1.8 formally confirms the appointment of the Clerk as the council's RFO.</p> <p>The council's internal controls and procedures, including an Annual Investment Strategy, are identified in an appendix to Financial Regulations.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● Standing Orders should be amended in the current financial year to take account of the Government's revised procurement thresholds.</li> </ul>
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><b>Findings</b></p> <p>I have reviewed and tested a large sample of payments throughout the year.</p> <p>I have reviewed for accuracy, correct year of account, classification within the council's accounts and compliance with Financial Regulations.</p> <p>The Clerk has confirmed that no tenders needed to be sought, in accordance with Financial Regulations, during the year.</p> <p>I have tested that VAT has been identified and correctly recorded for inclusion in the HMRC VAT reclaim.</p> <p>The council issued very few cheques during the year. A sample of the council's cheque stubs have been examined and the stubs have been initialled by at least two 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>The Clerk has confirmed that spreadsheet 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 £7,834 has been coded to s.137 expenditure during the year. All tested expenditure coded to s.137 is appropriate for this statutory power and is well within the statutory limit set by the Government for 2022/23. It is noted, however, that the council has purchased Remembrance poppies and a wreath during the year and coded this expenditure to Autumn Events. Such purchases are treated as donations to the British Legion and as such must be coded to s.137. Under s.137(3) contributions may be made to charities and bodies providing a public service on a non-profit making basis, but only in furtherance of their work in the United Kingdom.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● In future years the purchase of Remembrance poppies and wreaths, by way of a donation to the Royal British Legion, must be coded to s.137 in the council's accounting system.</li> </ul>
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><b>Findings</b></p> <p>The council maintains its Risk Assessments on a computerised system called Local Council Risk System (LCRS). The Risk Assessments were reviewed and adopted at the council meeting held on the 4th May 2021. The Clerk is aware that the Risk Assessments require a detailed review, and the council has agreed that the Clerk should seek quotations from alternative providers. This is in the process of being done and should be completed by the year-end.</p> <p>The council also maintains a Health and Safety Policy which is contained in the Staff and Office Handbook which was also re-approved on the 4th May 2021.</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</p>

obtained if necessary. 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. Detailed inspection sheets, which identify any issues found and the remedial action taken, are completed for all checks.

It is noted that the council has resolved to place some of its funds with Nat West Bank and thereby limit its exposure in the unlikely event of a second collapse of the banks. This process with the bank has been very slow and is not yet completed. At the Finance meeting held on the 22nd November 2021 it was resolved to transfer £150,000 to the council's NS&I account. This has not yet been completed as it cannot be done online and the Clerk keeps receiving the incorrect paperwork from NS&I. Other large Town Councils also use alternative financial institutions, other than banks, in which to place funds to cover the risk of another banking collapse.

I have examined the council's insurance policy and the indemnity limits are considered to be adequate.

I have reviewed the security of the council's electronic data. The council's computers are password protected.

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.

#### **Recommendation**

- Owing to the difficulty of opening a Nat West account and transferring funds to NS&I, the council may wish to make enquiries with the alternative banking institutions used by other councils to place funds in order to mitigate the risks of another banking collapse. Care must be taken of course, and professional advice sought prior to taking any decision to place funds with an alternative provider.

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><b>Findings</b></p> <p>A detailed budget report was prepared for 2021/22 which was approved, together with the Precept, by Full Council on 15th December 2020.</p> <p>Actual expenditure against budget is monitored and reported to the Finance and Strategic Planning (F &amp; SP) Committee. The half year report was reported to the meeting held on the 27th October 2021 and a further report was presented and approved at the November 2021 F &amp; SP Committee. The monitoring reports detail the council's original budget, income and expenditure to date and the variance between the two. This enables Members to take any decisions necessary in the event of a significant shortfall in income or a significant overspend of expenditure.</p> <p>The council's balances totalled £224,490 as at the 31st March 2022. £160,000 is held as earmarked reserves for specific projects and an election reserve; the balance of £64,490 represents the council's general reserve. The general reserve equates to 37% 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><b>Findings</b></p> <p>The council's Precept for 2021/22 is £161,933 which agrees to the two instalments of £80,966.50 received on 30/04/21 and 01/09/21.</p> <p>The council also received income in respect of VAT refunds from HMRC, Allotment Association rent, admission charges, raffle and pitch spaces for the Teddy Bears Picnic and refunds in respect of office rent.</p> <p>I have agreed income received to supporting documentation with the exception of the income for the sale of raffle tickets at the Teddy Bears Picnic.</p>



		<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● Sundry income, such as the sale of raffle tickets, should be controlled (by reconciliation of the income with the number of tickets sold) to ensure that all income due from sales has been received.</li> </ul>
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><b>Findings</b></p> <p>The council maintains a petty cash system with a float of £200 which is reimbursed as required.</p> <p>I have checked a sample of petty cash vouchers during the year to ensure that the expenditure is appropriate and any VAT has been identified and correctly recorded in the accounting system for reclaim from HMRC.</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 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><b>Findings</b></p> <p>All members of staff have received formal contracts of employment which contain clear terms and conditions.</p> <p>I have agreed salary payments throughout the year for each member of staff, with the exception of the payments to the Administration Assistant from May to December 2021. The gross pay for the Admin. Assistant has been incorrectly calculated by the council's payroll provider by applying the incorrect number of hours worked each month. The overpayment for each full month worked between May and November is £184.62 plus a smaller amount for her final month of employment. It is understood that discussions are ongoing regarding the recovery of the overpayment from the council's payroll provider.</p> <p>Employees have been subject to PAYE and NI regulations via the payroll prepared by the council's external payroll provider.</p> <p>For the sample checked, PAYE and NI deductions have been correctly paid to HMRC.</p>

		<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The council should endeavour to recover the overpayment to the Administration Assistant during 2022/23.</li> <li>● If the council's payroll provider cannot be relied upon to process the monthly payroll accurately and is not willing to make good any errors they make, the council may wish to consider changing to an alternative provider.</li> <li>● A check should continue to be carried out on the reasonableness of the monthly gross payroll figures provided by the council's payroll provider.</li> </ul>
9	Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?	<p><u>Appropriate recording of assets</u></p> <p><b>Findings</b></p> <p>The council's Asset Register is now maintained within the inventory software module within 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 Clerk has confirmed that the council's original Asset Register has been input into the RBS inventory module and balanced in total. It is noted, however, that not all items have correctly migrated across to the new system. Also, some purchases prior to the year-end need to be added.</p> <p>It is noted that some gifted assets have been included in the new inventory module at nil value. Such assets should be assigned a nominal value of £1.00.</p> <p>The council does not hold any investments.</p> <p>The total value of assets on the Asset Register as at 31st March 2022 agrees to the declaration in box 9 on the Accounting Statement on the AGAR.</p>

		<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The old and new Asset Registers should be compared in detail to ensure that all council assets have successfully transferred to the new register in the RBS accounting system.</li> <li>● Any assets purchased prior to the year-end and not yet added, should be added to the new register during the current financial year.</li> <li>● Gifted assets should be included in the Asset Register at a nominal value of £1.00</li> </ul>
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><b>Findings</b></p> <p>The accounting system automatically produces bank reconciliations each month for the council's current account, NS &amp; I account and petty cash account. These are 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 nominated 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 statements agree. The statements are also correctly signed by the Chairman to confirm that the month-end balances agree to the reconciliations. This process is recognised as being a key element of the council's internal financial control environment. It is noted that the NS &amp; I bank statements are only produced annually and when any transactions take place during the year.</p> <p>A review of the reconciliations confirms that there are no unusual or balancing entries.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● When the process of transferring funds into a Nat West Bank account, or to another financial institution, is completed, monthly RBS bank reconciliation statements should also be produced for this account and provided to each council meeting for review and authorisation, together with the respective month-end bank statements.</li> </ul>

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><b>Findings</b></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 31/03/22 has been declared correctly in box 9, on the Accounting Statement. Following the purchase of the RBS inventory module, the value of assets held by the council is now included in the RBS accounting system.</p> <p>The Interim Internal Audit Report for 2021/22 was presented to the Finance Committee on the 21st February 2021.</p>
12	<p>If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?</p>	<p><u>Exemption Certificate</u></p> <p><b>Findings</b></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 Audit Regulations 2015?</p>	<p><u>Exercise of Public Rights</u></p> <p><b>Findings</b></p> <p>I have confirmed by a review of the council's website that, during the summer of 2021, 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><b>Findings</b> 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><b>Findings</b> 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 and the accountant in the completion of this audit was much appreciated.

The internal financial control environment within the council is good and 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 Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2021.

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*

5<sup>th</sup> May 2022

*Public Sector Audit*

**UK©CS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616