

# *Public Sector Audit*

## Elloughton cum Brough Town Council

*Internal Audit Report for the year ended 31 March 2021*

*Public Sector Audit*

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## Elloughton cum Brough Town Council

### **Internal Audit Report for the year ended 31 March 2021**

#### 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><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>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> <ul style="list-style-type: none"> <li>➤ <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</i></li> </ul>

		<p><i>a change of reporting basis, corresponding figures from the preceding year must be restated in a similar basis."</i></p> <p>No staff mileage costs were incurred during the year and the council's accountant is aware of the Government's requirement to include future staff mileage costs in box 6 on the AGAR. The accountant has confirmed that when the year-end audit is complete and the 2020/21 accounts have been closed down, he will amend the accounting software to ensure that any future staff mileage costs are included in box 6 on the AGAR in accordance with Government requirements.</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 Nat West Bank.</p> <p>Last year it was reported that the total value of assets held by the council had not been recorded in the council's RBS accounting system for 2018/19 and 2019/20 and, as a result of this, the year-end values of assets had not been recorded on the Annual Governance and Accountability Return submitted to the External Auditor. At the time of the current audit the value of the council's fixed assets, as at the 31st March 2021, has not been recorded in the accounting system for automatic inclusion on the AGAR.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● When the process of transferring funds into a Nat West Bank account 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>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 are identified in an appendix to Financial Regulations.</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><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. 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. The council's cheque stubs have been examined and all cheque stubs have been initialled by at least two signatories to signify the agreement with the details on the cheque and the documentary evidence seen in support of the cheque at the time of signature.</p> <p>During the year, owing to meetings being held remotely, the monthly schedules of payments were not being signed as authorised by the Chairman and one other nominated Council Member. This procedure satisfies the rule that at least two people should be involved in all payments, either before, at the time of, or after the event and is recognised as part of a sound system of internal financial control.</p> <p>A total of £11,595 has been coded to s.137 expenditure in the council's accounts. One of the grants coded to s.137 was £2,000 towards the upkeep of the Village Hall. S.137 expenditure is a statutory power granted to local councils by the 1972 Local Government Act. It is available when there are no other, more specific, legal powers available to a council. The council has the legal power to support a Village Hall under s.133 of the 1972 Local Government Act and hence such expenditure should not be coded to s.137. The expenditure coded to s.137 during the year is, however, well within the statutory limit set by the Government for 2020/21.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● When physical meetings re-commence, the schedule of all payments, including any petty cash, should be provided to council for review and approval. The schedule should be signed as prepared by the Clerk and</li> </ul>
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		<p>authorised by the Chairman and one other nominated Council Member.</p> <ul style="list-style-type: none"> <li>● In future years grants to support the Village Hall should not be coded to s.137.</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 Annual Town Council meeting held in July 2020. They were again reviewed and approved at the 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 during 2021/22.</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. In addition to this a member of council staff undertakes a daily inspection of the area whilst litter picking, sweeping and general tidying. 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, have been completed for all checks, except the daily inspections of the play area.</p> <p>It is noted that, following the Interim Audit review, the council 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 has not yet been completed.</p> <p>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</p>

		by the council's IT providers.
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> <b>Findings</b> A detailed budget report was prepared for 2020/21 which was approved, together with the Precept, by the council on 17th December 2019.</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 presented to the meeting held on the 26th October and a further report, with revised budget proposals, was presented and approved on the 23rd November 2020. 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. The Clerk has confirmed that, as processes are returning to normal, quarterly budget monitoring reports will be presented for formal review and approval.</p> <p>The council's balances totalled £224,317 as at the 31st March 2021. £160,000 is held as earmarked reserves for specific projects and an election reserve; the balance of £64,317 represents the council's general reserve. The general reserve equates 40% 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> <b>Findings</b> The council's Precept for 2020/21 is £163,150 which agrees to the two instalments of £81,575 received on 30/04/20 and 24/09/20.</p> <p>The council also received income in respect of a Small Business Grant from ERYC, two quarterly VAT refunds, Allotment Association rent, advertisements in the Petuaria Press and two sundry refunds.</p> <p>I have agreed income received to supporting documentation and the accounting system.</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><b>Findings</b> 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 that any VAT has been identified and correctly recorded in the accounting system for reclaim from HMRC.</p> <p>Currently, only the petty cash top-ups are identified on the schedules of payments presented to council for review and approval. All the individual petty cash payments, however, should be included in the schedules presented to council for authorisation. The RBS accounting system can produce a detailed schedule of such payments. The petty cash vouchers and till slips etc. should also be included in the payments' file which is provided to council for review and approval together with all other council payments.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Schedules of individual petty cash payments should be printed from RBS and provided to council for approval on a quarterly basis.</li> <li>● All petty cash vouchers should be included in the payments' file for review by council.</li> </ul>
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</p>	<p><u>Adequate payroll controls</u></p> <p><b>Findings</b> All members of staff have received formal contracts of employment which contain clear terms and conditions.</p> <p>I have agreed all salary payments from April 2020 to March 2021 for each member of staff, with the exception of the number of hours paid to the Administrative Assistant in December 2020.</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>

	deducted and paid to HMRC?	<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● Two unpaid hours of work by the Administrative Assistant should be paid during the current year.</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 maintained as a schedule which identifies the description, location and valuation of each asset.</p> <p>The Asset Register has been updated to include purchases made during the year. It was noted that, on one occasion, the purchase of 2 aluminium signs was added to the register at cost price including VAT. As the council is able to recover the VAT element of its purchases, the cost price net of VAT, should be recorded in the Asset Register.</p> <p>The Clerk has confirmed that both she and the council have compared the Asset Register to the council's insurance policy to check that all assets that the council wishes to insure are adequately covered by the policy.</p> <p>The council does not hold any investments.</p> <p>The total value of assets on the Asset Register as at 31st March 2021 agrees to the declaration in box 9 on the Accounting Statement on the AGAR.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● As recommended last year, additions to the Asset Register should be valued at cost price net of VAT</li> </ul>
10	Were bank reconciliations performed on a regular and timely basis?  Has a year-end reconciliation been	<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 the RBS</p>

	<p>performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p>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>Recommendations</b></p> <ul style="list-style-type: none"> <li>● When the process of transferring funds into a Nat West Bank account 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> <li>● The latest NS &amp; I bank statement should also accompany each month's reconciliations as evidence of the balance being verified by the Chairman.</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</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. It is noted, however, that box 4, staff costs, includes expenditure of £140 in respect of staff training. As noted in section 1 of this report, work related training expenses are not staff costs for the purposes of completion of the Accounting Statement.</p> <p>The total value of council owned assets on the Asset Register as at 31/03/21 has been declared correctly in</p>

	and actioned as necessary?	<p>box 9, on the Accounting Statement. Currently, the value of assets held by the council is not included on the RBS accounting system. The Clerk is aware of this and has confirmed that assets will be included in box 9 on RBS when the year-end has been closed down.</p> <p>The Final Internal Audit Report for 2019/21 was presented to, and approved by, Full Council on the 21st July 2020.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Prior to submission to council for approval and the External Auditor for review, box 4, staff costs, and box 6, all other payments, should be amended in respect of staff training expenses to reflect Government guidance (i.e. box 4 should be reduced by £140 and box 6 should be increased by the same amount).</li> <li>● When the 2020/21 year-end is closed down, the accountant should include the value of council owned assets in box 9 on the Accounting Statement.</li> </ul>
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><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	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><b>Findings</b></p> <p>I am required by the External Auditor to confirm that the council provided the proper opportunity for the exercise of public rights in accordance with the 2015 Accounts and Audit Regulations. At the time of the audit the Clerk has confirmed that the Notice of Public Rights had been removed from the council's website and replaced with the Notice of Conclusion of Audit. I was unable, therefore, to check that the council had complied with requirements of the 2015 Accounts and Audit Regulations. The council's new Clerk is aware of the requirement to retain the Notice of Public Rights on the council's website and will ensure that this</p>

		<p>requirement is met in the future.</p> <p>The External Auditor has confirmed that, as an alternative to seeing the Notice of Public Rights on the website, I am able to rely on the council approved minutes confirming the dates set. Unfortunately, the councils' minutes of the 20<sup>th</sup> July 2020, when the Annual Governance and Accountability Return was approved, do not confirm the dates of the Notice of Public Rights.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● To facilitate audit verification the statutory Notice of Public Rights should not be removed from the council's website when the period of notice has expired.</li> </ul>
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></p> <p>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), with the exception of the Notice of Public Rights, as reported in section 13 above, and the recommended publication of the Internal Audit Report on page three of the AGAR.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● All <i>required</i> documentation should be published on the Council's website in accordance with the Accounts and Audit Regulations 2015 and the Publication Requirements detailed on page 1 of the AGAR.</li> <li>● The publication of the <i>recommended</i> documentation on the council's website, in respect of the Internal Audit Report, should be considered by the council, as best practice, in accordance with the Government's recommendation.</li> </ul>
15	Has the council met its	<u>Trustee responsibilities</u>

	responsibilities as a Trustee?	<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.
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Executive Summary

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The accounts and governance arrangements of the council have been maintained to a high standard and the assistance of the Clerk and Deputy Clerk of the council 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.

It is noted in this report that the council has not yet been able to implement some previous audit recommendations. A combination of the pandemic and staffing difficulties last year presented many challenges to the council and, as we return to some normality, the council should review this report and agree an action plan with a timeline for implementation of the recommendations. The current Joint Panel on Accountability and Governance Practitioners' Guide states that:

- *“Authorities will receive reports from both their internal and external auditors. An authority should consider the matters included in these reports and decide what action it needs to take to prevent recurrence of the issues raised. The consideration and decisions should be included in formal minutes”.*

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*

24<sup>th</sup> May 2021

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