

Public Sector Audit

Winteringham Parish Council

Internal Audit Report for the year ended 31 March 2022

Public Sector Audit

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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 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.

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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. Separate monthly spreadsheets are consolidated into a final year-end summary for year-end purposes.</p> <p>It is comprehensively analysed for the purpose of completing the Annual Governance and Accountability Return (AGAR). It is noted that "mileage costs/tolls" is separately analysed and correctly not included with "staff costs" in accordance with revised Government Guidance.</p> <p>It is noted that Village Hall Trust expenditure has been incurred by the council and included on the Accounting Statement on the AGAR. This is not permitted by the Government and the council has incorrectly stated in box 11 of the Accounting Statement that <i>"The figures in the accounting statements above do not include any Trust transactions"</i>.</p> <p>A year-end bank reconciliation and monthly reconciliations, with the exception of July 2021, have been performed; all reconciliations are presented to each meeting of the council.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● It would be safer from a legal point of view if all Trust expenditure involving the Village Hall Charity, in respect of BT Broadband and M/S Office 365, was transferred from Office Costs to s.137 in the cash book and the VAT element was removed from the VAT column and not included in the 2021/22 VAT Reclaim. This should be done prior to the council's submission of the AGAR to the External Auditor.

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 The council's Standing Orders were reviewed, amended and approved at the council meeting held on the 6th July 2021. They are the latest NALC Model. The Government has announced revised thresholds in respect of tendering for public contracts, which came into effect on the 1st January 2022; NALC Model Standing Orders, however, have not yet been updated.</p> <p>The council's Financial Regulations presented to audit confirm that they were adopted on the 1st October 2019. They are the latest NALC Model.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Standing Orders should be amended in the current financial year to take account of the Government's revised procurement thresholds. ● The council's Standing Orders and Financial Regulations should be presented to council annually for review and approval.
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 I have reviewed and checked all expenditure during the year. All payments were appropriate and, for the sample checked, have been agreed to the payment schedules that are included in the minutes presented to council.</p> <p>I have reviewed and agreed the payments for occurrence, completeness, accuracy, correct year of account, compliance with Financial Regulations and classification within the council's accounts.</p> <p>It is noted that the issues regarding the Village Hall Broadband and Microsoft Office 365 are ongoing; the Village Hall has agreed to take this over and the council will subsidise 50% of the ongoing cost. As the council</p>

does not have the statutory power to pay this to a charitable organisation, such as the Village Hall, the expenditure should be charged against s.137 in the cash book.

I have checked that VAT has been correctly identified and recorded in the council's accounts for reclaim from HMRC purposes.

- It was noted that the VAT element of the payment to BT in March 2022 in respect of Broadband and M/S Office 365 has been analysed as IT in the cash book and not VAT.
- It was also noted that the payments for printing Newsletters have been analysed in the cash book including a VAT element in the VAT column. Although the printer's invoices do not identify a VAT element, they do include a VAT registration number. The Value Added Tax Act 1994, section 30 provides for the zero rating of goods listed in Schedule 8 to the Act. These include, inter alia, books, booklets, brochures, pamphlets, leaflets, newspapers, journals and periodicals.
- A reimbursement in March 2022 for key cutting has been analysed in the cash book excluding VAT. The supplier's VAT registration number is shown on the till receipt and does, therefore, constitute a "VAT invoice" under HMRC's simplified invoice rules for payments up to £250.

The cash book does not include a s.137 payment analysis column. S137 of the 1972 Local Government Act is a specific statutory power available to the council; because it has limitations to its use and an annual statutory limit, it should be separately identified in the cash book. Most grants and donations made by the council should be coded to this statutory power.

- The payment to the Royal British Legion for the Remembrance Day wreath is a donation to a charity and, as the council has no other statutory power to make such donations, should be coded to s.137.

The two-signature rule has been observed by the council and evidenced by the cheque counterfoils being initialled by three signatories to signify agreement with the cheque and the documentation provided at the time of signature.

		<p>Recommendations</p> <ul style="list-style-type: none"> ● Care should be taken to ensure that VAT is correctly analysed in the cash book to facilitate the accurate completion of the VAT reclaim from HMRC ● The council should check with the printers whether VAT has been included in their invoices for printing the council's Newsletters. If it has not, the VAT element, included in the VAT column in the cash book, should be transferred to the relevant payment analysis column, and not included in the VAT reclaim. ● Payments made, which satisfy HMRC simplified invoice rules, should be analysed in the cash book with the appropriate VAT element identified in the VAT column for reclaim purposes from HMRC. ● The council's cash book should include a s.137 expenditure column to separately identify all expenditure incurred using this statutory power. ● Any subsidies paid to the Village Hall should be coded to s.137 in the council's accounts and the VAT element of such payments should not be included in the council's VAT Return. ● The purchase of the Remembrance Day poppy wreath should be separately analysed as s.137 in the cash book as the council has no other statutory power to incur such expenditure. ● Following the release of a briefing note (LO1-18) from NALC several years ago, the council needs to be aware that section 8 of the 1894 Local Government Act prohibits a Parish Council from incurring expenditure on "property relating to the affairs of the church or held for an ecclesiastical charity". It is NALC's view that this prohibition still applies and is not overridden by the general provisions of section 137 of the 1972 Local Government Act. Section 137 expressly provides that expenditure cannot be incurred for purposes which are subject to a statutory prohibition, restriction or limitation and cannot, therefore, be used for the maintenance or upkeep of property or land owned by the church.
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		<ul style="list-style-type: none"> ● If the council plays recorded music in public, it may wish to enquire whether a licence fee is payable to PPS PRS Ltd. Further information can be found at "www.gov.uk/licence-to-play-live-or-recorded-music" ● It should never be assumed that registration for VAT purposes means that all value added tax can be recovered. Owing to the complexity of VAT legislation, it is recommended that advice be sought from HMRC when any new projects are undertaken, significant capital expenditure is being considered or any new matters arise.
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 minutes of the meeting held on the 12th October 2021 record that the "Risk Assessments review - Risk Assessment management" was approved. The document provided more detail from previous Risk Assessment documents and identifies the protection of council assets, control of financial management, insurance provision, legal liability and councillor propriety.</p> <p>The Council maintains a Financial Risk Assessment which includes the protection of council assets, control of financial management, insurance provision and HMRC. The copy of this document, provided to audit, is dated April 2021. The council's Health and Safety Policy was also reviewed and approved on the 12th October 2021.</p> <p>Detailed inspections sheets record the inspections of council owned assets. They record the assets inspected and any issues arising from the inspections. Two such inspection reports have been submitted to audit for review and are dated the 3rd July 2021 and 7th March 2022. It is noted that the inspection on the 3rd July 2021 recorded; "<i>All reported before - in need of attention</i>". The inspection sheet dated the 7th March 2022 records various issues requiring attention. The inspection sheets do not include provision for the action taken to correct the issues identified and the date(s) on which they were completed. Such information is necessary for management control purposes and to protect the council's interests in the event of damage or injury to a third party as a result of damaged or poorly maintained assets.</p>

		<p>A copy of the council's "Open Spaces and Assets Risk Assessments" dated May 2020 identifies that the Play Park is inspected monthly. Apart from the July 2021 and the March 2022 inspections, it is not known how many additional inspections were undertaken during 2021/22. It is noted that the council also has an SLA with North Lincs. Council for an annual playground inspection.</p> <p>I have reviewed the council's insurance cover and the levels of indemnity provided by the policy are adequate.</p> <p>The council's electronic records are protected by backing up electronic data daily to cloud storage and monthly to external hard drives, one of which is always stored offsite. The Clerk has confirmed that the council's computer and external hard drives are password protected.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council's asset inspection sheets should include provision to record the action taken to correct issues that have been identified, including the dates on which they were actioned, a "prepared by" box for the preparer to sign and a "reviewed by" box for the Clerk to sign. ● If not already being undertaken, monthly inspections of the play park should recommence in accordance with the council's Open Spaces and Asset Risk Assessments and to protect the public and the council's interests.
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 was prepared in support of the 2021/22 Precept.</p> <p>From September 2021 the council's new Clerk has provided detailed budget monitoring reports to each council meeting. These are reviewed by council and are signed by the Chairman. They identify expenditure to date, the original budget for each budget line and the balance remaining.</p>

		<p>Year end balances were £31,289 as at 31/03/22. The balances are all held as general balances, although the council is aware that significant works are required at the Nature Garden and on trees owned by the Parish Council.</p> <p>The 2022 NALC/SLCC Governance and Accountability Practitioners Guide identifies in sections 5.33, 5.34 and 5.37 that:</p> <ul style="list-style-type: none"> ➤ <i>The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure</i> ➤ <i>The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.</i> ➤ <i>None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.</i> <p>Recommendation</p> <ul style="list-style-type: none"> ● When the council is aware that significant expenditure is required in the future, or it has a new project it wishes to fund, the necessary funds should be "earmarked" against such projects.
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</p> <p>The council's Precept income of £20,500 agrees to the cash book and the bank.</p> <p>The council also received a council tax grant and grants for cutting verges and public rights of way from NLC, a VAT receipt from HMRC, advertising in the Newsletter, miscellaneous, and a small amount of bank interest.</p> <p>I agreed all income received during the year to the documentary evidence provided. It is noted that the income received from NLC for the grass cutting SLA, differs from the initial notification from NLC.</p>

		<p>It is noted that cash/cheques to the value of £45.00 were banked via the Post Office on the 14th October 2021. These related to income received during July and August 2021. The Clerk is aware that income should be banked in a timely manner and the delay in banking was presumably due to the Clerk commencing her employment in July 2021.</p> <p>I am not aware that the council has a formal Scale of Charges for advertising in the council's Newsletter and the Clerk has confirmed that the council has not minuted the charges in the current year. I have been unable, therefore, to confirm that the income received is in accordance with council approvals. I have been provided with a letter from the previous Clerk which identifies the pricing options for advertising space including black & white or colour, for quarter, half of full-page adverts.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should adopt a formal Scale of Charges for the cost of advertising in the Newsletter or detail in the minutes the charges it wishes to make. ● It is considered to be best practice for the council to formally review charges every two years, whether it wishes to change them or not. ● The council may wish to enquire why the payments received for its grass cutting agreement are higher than the initial notification from NLC.
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>The council does not maintain a separate petty cash system.</p> <p>All petty expenditure incurred by the Clerk and Members of the council is reclaimed and reimbursed through the normal payments system and is authorised by council together with all other council expenditure.</p>

	Has VAT been correctly accounted for?	The findings and a recommendation in respect of the VAT implications the reimbursement of petty disbursements is included in section 3 of this report.
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>The council's new Clerk has a formal contract of employment which contains clear terms and conditions. The contract has been signed by the Chairman on behalf of the council but has not yet been signed by the Clerk.</p> <p>I have not been able to agree the salary payments to the previous Clerk as I have not been provided with contract details or hours worked for this employee.</p> <p>I have agreed all salary and allowances payments for the present Clerk, since the official commencement of her employment, to those approved by the council and the 2020/21 NJC pay award. I did not, however, receive details of the hours the Clerk worked during June 2021, prior to the commencement of her employment.</p> <p>It is noted that the council's Handyman is paid on the basis of a monthly time sheet submitted to the council, which identifies the number of hours worked and any expenses incurred. This raises the question of whether the Handyman is an employee or a self-employed contractor. The council on the 15th December 2021, min.15a, resolved to increase the hourly rate paid to the Handyman, which suggests that he is an employee, I have not, however, been provided with a contract of employment. Also, the monthly salary payments have not been subjected to HMRC PAYE and NI regulations, and they have not been included in the staff costs column in the cash book or box 4, staff costs, on the year-end accounting system.</p> <p>The National Joint Council (NJC) 2021/22 pay award was announced in March 2022. It has not been implemented by the Clerk during the year, however.</p> <p>Salary payments have been subject to PAYE and NI regulations. Income tax was initially due to HMRC in respect of the new Clerk's salary for July and August, but, following a revised Notice of Coding, this was</p>

		<p>refunded in September. PAYE was however paid to HMRC in respect of the previous Clerk's employment with the council.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As a contract of employment is a legally binding contract, it should be signed by the Clerk as well as the council. ● Contracts of employment and details of hours worked for previous employees paid during the year of audit, should be provided to audit for verification purposes. ● Details of all hours worked during the year should be submitted to audit for verification purposes, to enable the Internal Audit Certificate to be completed in respect of Control Objective G. ● The council should clarify the employment status of the Handyman. If he is an employee, he should be provided with a contract of employment and his salary payments subjected to PAYE and NI regulations. If the Handyman is a self-employed contractor, he should submit letterheaded invoices to the council for the number of hours worked each month and be paid accordingly. ● The NJC 2021/22 pay award should be implemented during the current financial year, including the payment of appropriate back pay.
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>Findings</p> <p>The Asset Register identifies the council's assets, date acquired (if known), the location, the purchase price (or nominal value if not known), the valuation for both insurance and Annual Return purposes and details of any disposals.</p> <p>The register was reviewed and approved at the council meeting held on the 7th September 2021.</p>

		<p>I have checked and confirmed that assets purchased during the year have been added to the register at the correct valuations. It is noted, however, that the council minutes of the 8th June 2021 record that council's old laptop had a damaged screen and a replacement computer would be purchased for the new Clerk. The new computer has been added to the register, but the old, damaged laptop has not been removed.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● If the council's old computer has been disposed of, the Asset Register should be amended accordingly.
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>Monthly bank reconciliations, with the exception of July 2021 when the new Clerk took up her post, have been prepared. They are presented in the recommended format to include both of the council's bank accounts.</p> <p>Each of the reconciliations has been signed as authorised by the Chairman. It is noted that the Chairman also signs the respective bank statements as evidence that the reconciliations and the statements are in agreement. This is considered to be best practice and part of the council's overall financial control.</p> <p>The reconciliations have been presented to council monthly as part of the Finance Reports and minuted as such.</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,</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 cash book and there is an audit trail from underlying financial records to the year-end statements. Explanations have been received from the Clerk regarding the need to restate the opening cash book balance.</p>

	<p>were debtors and creditors properly recorded? Has the previous Internal Audit Report been submitted to council and actioned as necessary?</p>	<p>The declaration of assets in box 9 on the Accounting Statement agrees with the total of the Asset Register as at the 31st March 2022.</p> <p>The Internal Audit Report in respect of 2020/21 was presented to council, and noted, on the 17th August 2021.</p> <p>The 2021/22 Internal Audit Report should be reviewed by council and an Action Plan prepared that identifies the actions taken in response and the dates completed. The 2022 Governance and Accountability Practitioners Guide section 5.98 states: <i>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.</i></p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The 2021/22 Internal audit Action Plan agreed by council should be provided to audit next year to facilitate the review of the actions taken. ● To prevent follow up audit issues, the External Auditor should be provided with an explanation for the restated opening balance on the 2021/22 Accounting Statement on the AGAR.
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	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</p> <p>I have confirmed by a review of the council's website, that the council's previous Clerk did not correctly provide the proper opportunity for the exercise of public rights in accordance with the 2015 Accounts and Audit Regulations. In accordance with the External Auditor's instructions: <i>The inspection period must include the first 10 working days of July, i.e., the 1st to the 14th July 2021. In practice this means that public rights may be exercised at the earliest between the 3rd June and 14th July 2021; and at the latest, between the 1st July and the 11th August 2021.</i> The period of inspection announced by the council was the 26th July to the 3rd September 2021. The council's new Clerk is aware of the statutory requirements for the publication of public rights and will ensure that they are followed in the future.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should provide the proper opportunity for the exercise of Public Rights in accordance with the External Auditor's instructions and the 2015 Accounts and Audit regulations.
14	Did the council comply with the publication requirements for the previous year's AGAR?	<p><u>Publication Requirements</u></p> <p>Findings</p> <p>I have reviewed the council's website and confirmed that the Town 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</p> <p>I have seen no evidence that the council has sole responsibility for Trust Funds and the Clerk has confirmed that this is the case.</p>

Executive Summary

It is noted that the majority of the recommendations in this report are in respect of governance and accounting issues that arose prior to the commencement of the new Clerk's employment. Once these are resolved, the Clerk will be in much better position to maintain a much higher standard for both governance and internal financial control systems, which will result in increased compliance with Government legislation and guidance.

The recommendations are prioritised and should be actioned in accordance with the table on page 3 of this report.

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

28th April 2022

Public Sector Audit

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