

## Internal Audit Report - Year ending: 31<sup>st</sup> March 2020

<b>Name of Council:</b>	Hundon Parish Council
<b>Income:</b>	£19,564.02
<b>Expenditure:</b>	£12,521.00
<b>Precept Figure:</b>	£16,330.00
<b>General Reserve:</b>	£39,985.00
<b>Earmarked Reserves:</b>	£0.00
	<p>Within the Internal Audit Report for the year ending 31<sup>st</sup> March 2019, the internal auditor, highlighted a number of weaknesses which demonstrated that the council had failed to accord with proper accounting and governance practices ('proper practices') referenced to in statute. It should also be acknowledged that the Council was without a Clerk from May to August and that the newly employed Clerk, effective August (with first meeting as Clerk in September) is working through an audit plan which will take into account measures to ensure that matters raised within this internal audit report and outstanding matters from the internal audit report for 2018/19 are fully considered by the council at the earliest opportunity.</p>



## Internal Audit Objectives and Responsibilities

The primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal control systems operating throughout the council, and to achieve this will adopt a predominantly systems-based approach to audit.

The council's internal control system comprises the whole network of systems established within the council to provide reasonable assurance that the council's objectives will be achieved, with reference to:

- The effectiveness of operations
- The economic and efficient use of resources
- Compliance with applicable policies, procedures, laws and regulations
- The safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- The integrity and reliability of information, accounts and data

Accordingly, in the conduct of planned audits Internal Audit may:

- Carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year in order to be able to complete the Annual Internal Audit Report 2019/20 of the Annual Governance and Accountability Return (AGAR)
- Review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets
- Appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems
- Review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the council complies
- Review the operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned

Subject	Requirements	Comments/Recommendations
<b>1. Proper Book-keeping</b>	Type of cash book or ledger used	Computerised cash sheets are used.
	Cash book kept up to date and regularly verified against bank statement	The Clerk has restated the cashbook which is kept up to date and referenced which provides evidence to support the Council's underlying accounting statements.
	Correct arithmetic and balancing	Spot checks were made and it is noted that there is an error on the AGAR when comparisons are made to the underlying financial statements. <b>See 10 and 11 below.</b>
<b>2. Financial Regulations &amp; Standing Orders</b>	Evidence that standing orders have been adopted and reviewed regularly	The Council's Standing Orders, were reviewed at the meeting of 19 <sup>th</sup> February 2020 and are based on the Model Standing Orders produced by NALC in 2018 which take into account changes in legislation since those produced in 2013.
	Evidence that Financial Regulations have been adopted and reviewed regularly	The Council's Financial Regulations (FR), were reviewed at a meeting of 19 <sup>th</sup> September 2019 but are based on the Model Financial Regulations produced by NALC in 2016.  <i>Comment: at its next review, Council might wish to consider and adopt the Model Financial Regulations produced by NALC in 2019 which have been adapted to reflect recent changes in legislation concerning procurement.</i>
	Evidence that a Responsible Financial Officer has been appointed with specific duties	In accordance with Section 151 of the Local Government Act 1972(d) (financial administration), the Council has appointed a person to be responsible for the administration of the financial affairs of the relevant authority.
	Evidence that Financial Regulations have been tailored to the Council	Financial Regulations are in part tailored to the Parish Council.  <i>Comment: to ensure that its Financial Regulations are tailored to the Parish Council, Council might want to consider removal of the alternative options for a council and in particular removing the square brackets, thereby eliminating ambiguity.</i>
<b>3. Payment controls</b>	Supporting paperwork for payments, and appropriate authorisation	At each full Council Meeting, effective September 2019, a register of all payments, future and retrospective, is presented to the meeting with formal approval of such expenditure being

		<p>given and evidence of such paperwork in the files submitted for internal audit as well as on the Council's website.</p> <p><i>Comment: Council might wish to consider appending the register to the minutes, to ensure that when the RFO's report is no longer on the website or the website is no longer running, the minutes tell the full story as a complete 'historical document'.</i></p>
	Internet Banking transactions properly recorded/approved	Council does not use internet banking.
	VAT correctly identified and reclaimed within time limits	VAT is identified in the cash book. The claim for the period 8 <sup>th</sup> June 2017 to 22 <sup>nd</sup> January 2019 in the sum of £1,263.66 was settled during the year under review. The year-end position shows VAT due to £61.97.
	Has Council adopted the General Power of Competence and is it being correctly applied?	<p>At the meeting of 25<sup>th</sup> September 2019 Council confirmed that it fulfilled the criteria as described under the Parish Councils (General Power of Competence) (Prescribed Conditions) Order 2012 and being eligible to use the power, resolve to adopt the General Power of Competence.</p> <p><i>Comment: Council might wish to note that the minutes state that it was Haverhill Town Council who was eligible to use the power.</i></p>
	S137 separately recorded, minuted and within statutory limits	There were no payments made under this power for the year under review.
	Payments of interest and principal sums in respect of loans, are paid in accordance with agreements	The Council has no Public Works Loan and as such incurred no interest payments for the period under review.
<b>4. Risk Management</b>	Is there evidence of risk assessment documentation?	<p>There is no evidence that a Risk Assessment for the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 was considered by Council during the year under review. There was however a comprehensive Risk Assessment undertaken by the Parish Council at its meeting of 20th May 2020 for the year 2020/2021.</p> <p><i>Comment: within its Risk Management Document submitted for 2020/2021 Council has identified a number of risks to property; finances and personnel and has taken steps to control</i></p>

		<i>the risk - all of which are clearly identified within the document as approved by Full Council.</i>
	Evidence that risks are being identified and managed.	<p>The Financial Risk Assessment adopted post 2019/2020 identifies the risks associated with ensuring that public finances are adequately protected and managed and has taken steps to mitigate such risks.</p> <p><i>Comment: the documentation of the specific control procedures that have been adopted by the council for payments not only protects the RFO but also fulfils an internal control objective.</i></p>
	Appropriate Insurance cover in place for employment, public liability and fidelity guarantee.	<p>General Insurance is in place and shows core cover: Business Interruption; Public Liability; Employer's Liability; Office Contents; Libel &amp; Slander; Officials Indemnity; Personal Accident and Legal Expenses. Fidelity Guarantee Cover is £150,000 which is within the recommended guidelines.</p>
	Evidence that insurance is adequate and has been reviewed on an annual basis	<p>Although Council renewed its current insurance cover during the year and paid the premium for a three-year agreement to achieve lower premiums there is no evidence that an annual review took place.</p> <p><i>Comment: during an annual review, Council would have ensure that it had identified its key risks and had taken steps to manage them in a way which it can justify to a level which is tolerable by transferring the risk and buying in services from specialist external bodies and taking out insurance.</i></p>
	Evidence that internal controls are documented and regularly reviewed	<p>Although a document headed up Internal control statement for year ending 31 March 2019 and dated 21<sup>st</sup> August 2019 was seen on the Council's website there is no corresponding minute to show that this was considered by Council at that meeting.</p> <p><i>Comment: with reference to the Accounts and Audit Regulations 2015, Council should understand the requirement to have in place safe and efficient arrangements to safeguard public money. On an annual basis, Council should make</i></p>

		<i>arrangements to review its arrangements to protect public money and document that such a review has taken place.</i>
	Evidence that a review of the effectiveness of internal audit has been carried out during the year	The effectiveness of internal audit was not discussed by full Council during the year under review.  <i>Comment: by reviewing the terms of reference for internal audit, Council has followed guidance with the Governance and Accountability Guide and recognises that the internal audit's function is to test and report to the authority on whether its specific system of internal control is adequate and working satisfactorily.</i>
<b>5. Budgetary controls</b>	Verifying that the budget has been properly prepared, and agreed	The internal auditor was unable to find in the minutes and financial details on the website, the budget set for the year 2019/20.  <i>Comment: to have shown good practice, Council should have evidence that it has followed the recommended key stages as to the budgetary process to be followed for the year:</i> <ul style="list-style-type: none"> <li>• <i>decide the form and level of detail of the budget;</i></li> <li>• <i>assess levels of income;</i></li> <li>• <i>provide for contingencies and consider the need for reserves;</i></li> <li>• <i>approve the budget.</i></li> </ul>
	Verifying that the Precept amount has been agreed in full Council and clearly minuted	The precept was set at £16,330 at the meeting of 16 <sup>th</sup> January 2019.
	Regular reporting of expenditure and variances from budget	Whilst financial reports showing income and expenditure are submitted to the Council, during the year there is no evidence that the Council carried out a review / monitored the budgeted versus actual income and expenditure received and incurred by the Council.  <b>Recommendation: in accordance with proper practices, Council should be aware that the monitoring of progress during the year by comparing actual spending against planned spending allows members early warning about the</b>

		likelihood of a shortfall (or surplus) and helps them to decide what responsive action to take. Such reports should be submitted in accordance with Council's own SO 17c.
	Reserves held  General and Earmarked.	<p>Council's final accounts show general reserves in the sum of £39,985.00.</p> <p><i>Comment: Council should be mindful of guidance submitted within Proper Practices which states that whilst it is essential that authorities have sufficient Reserves (General and Earmarked (EMR)) to finance both its day to day operations and future plans, it is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive. 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 (3) and twelve (12) months Net Revenue Expenditure. At the current level, council's general reserves are considered to be excessive.</i></p> <p><b>Recommendation: as per the audit recommendation from 2018/19 internal audit, Council should consider reviewing its general reserves noting that there is, in practice, no upper or lower limit to EMR save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually), and should be separately identified and enumerated.</b></p>
<b>6. Income controls</b>	Is income properly recorded and promptly banked?	<p>A number of items of income were cross checked against cash book and bank statement and found to be in order.</p> <p><i>Comment: in accordance with Proper Practices, the Responsible Financial Officer ensures that the accounting records contain entries from day to day of all sums of money received.</i></p>
	Is income reported to full Council?	All income received by the parish council is reported as part of the Financial Reports submitted by the RFO. The RFO ensures that monies received are promptly banked.

	Does the Precept recorded agree to the Council Tax Authority's notification?	The council received precept of £16,330 during the year under review.  <i>Comment: Evidence was provided showing a full audit trail from Precept being discussed and approved at the meeting of 16<sup>th</sup> January 2019, served on the Charging Authority to receipt of same in the Council's Bank Account.</i>
	Are CIL Reporting Schedules in accordance with the Community Infrastructure Levy Regulations (CIL) 2010?	There were no CIL monies received in the year under review.
<b>7. Petty Cash</b>	Is a petty cash in operation?	A petty cash system is not operated by the parish council.
	If so, is there an adequate control system in place.	All expenses claimed are approved by full council with supporting paperwork in place.
<b>8. Payroll controls</b>	Do all employees have contracts of employment?	Council had 1 employee on its payroll at the period end of 31 <sup>st</sup> March 2020. Employment contracts were not reviewed during the internal audit, but all salary payments are authorised by full council.  <i>Comment: in accordance with Proper Practices, Council has ensured that the remuneration payable to all employees has been approved in advance by the Council.</i>
	Are arrangements in place for authorising of the payroll and payments by the Council?  Verifying the process for agreeing rates of pay to be applied.	The payroll function is operated by SALC within the RTI system. Cross-checks were completed on two payments covering salary and PAYE and were found to be in order. There are suitable payroll arrangements in place which ensures the accuracy and legitimacy of payments of salaries and wages, and associated liabilities.
	Do salary payments include deductions for PAYE/NIC?  Is PAYE/NIC paid promptly to HMRC?	In accordance with Proper Practices, PAYE taxes and employee and employer National Insurance contributions (NIC) are calculated and recorded for every employee. Deductions are paid to HM Revenue and Customs, if applicable, on or before the dates prescribed.
	Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?	Council should consider verifying its position with the Pension Regulator to ensure that it has complied with its duties as an employer.



<b>9. Asset control</b>	Verifying the Council maintains an Asset Register in accordance with proper practises	<p>The Asset Register was reviewed during the Internal Audit Visit for year-end and accurately reflects those items listed under insurance and within the Parish Council's remit for maintenance and ownership. It is noted that the declared value for all assets at year-end (31.03.2020) was £33,627.49. All assets have been stated as at the acquisition value and where assets have been gifted or where there is no known value have been given the proxy value of £1.</p> <p><i>Comment: Council is mindful of the guidance within the Governance and Accountability for Smaller Authorities in England March 2019 on the valuation of its assets and has ensured that where the acquisition value of the asset at the time of first recording is used, that method of valuation has been consistently applied and if/where amended, it will need to publish and provide explanations in changes in value to any previously recorded assets.</i></p>
	Verifying that the Asset Register is reviewed annually	The Asset Register value has been stated on the Annual Governance and Accountability Return (AGAR) which was signed at the time of Internal Audit.
	Cross checking of Insurance cover	A number of items as listed under the Asset Register were reviewed against items under insurance and cover was deemed to be appropriate.
<b>10. Bank reconciliation</b>	Regularly completed and reconciled with cash book	<p>Bank reconciliations are completed on a regular basis in reconcile with the cash sheets. <b>But see comment below with regards to the year-end bank reconciliation.</b></p> <p><i>Comment: The RFO, as evidence of good financial practice, provides evidence of the bank reconciliations at each meeting to be verified by the Parish Council. This not only safeguards the Responsible Financial Officer but also fulfils an internal control objective.</i></p>
	Confirm bank balances agree with bank statements	Bank balances as at 31 <sup>st</sup> March 2020 do not agree with the total value of cash and short-term investments as shown on the Accounting Statements as per Section 1 of the AGAR.

		<p>Bank balances stand at: £39,984.85 overall broken down as follows:  Community Account: £4,752.02  Less unpresented cheques: £886.31  Plus uncleared income: £70.00  Business Account: £36,049.14</p> <p><b>Recommendation: in accordance with proper practices, the total value of cash and short-term investments should reconcile to the council's cash book. Council should be aware that the year-end bank reconciliation should include unpresented cheques and payments into the bank which are outstanding.</b></p>
	Regular reporting of bank balances at council meetings	Overall, there is regular reporting of bank balances within the financial reports submitted on a quarterly basis to the parish council.
<b>11. Year-end procedures</b>	Appropriate accounting procedures used	Accounts are produced on a receipts and expenditure basis.
	Financial trail from records to presented accounts	<p>Whilst there is an audit trail from the financial records held to the presented accounts they do not reflect the figures entered onto the Accounting Statements of the AGAR.</p> <p><b>Recommendation: see comment below and under Bank Reconciliation.</b></p>
	Has the appropriate end of year AGAR documents been completed?	<p>As Council is a smaller authority with gross income and expenditure not exceeding £25,000 it has completed Part 2 of the AGAR.</p> <p><b>Recommendation 1): it is suggested that the Exemption Certificate and Accounting Statements of the AGAR are revisited as currently they are not in agreement with the declared values for income. The Certificate of Exemption states total income of £19,564 whilst the Accounting Statements state £19,494. It is the former which is correct.</b></p> <p><b>Recommendation 2): it is suggested that the Accounting Statements be revisited:</b></p>

		<p><b>Box 3 be restated to £3234 to reference the Receipts and Payments Account;</b></p> <p><b>Box 5 be restated to £10,233 to reference the Receipts and Payments Account;</b></p> <p><b>Box 7 be restated to £39,985 to reference the Receipts and Payments Account;</b></p> <p><b>and Box 8 to £39,985 to reference the Receipts and Payments Account and Bank Balances as at 31.03.20</b></p> <p><b>The Accounting Statements will need to be brought back to the Council with formal approval of the amendment to be made.</b></p>
	Where an authority certified itself exempt in 2018/19, did it met the exemption criteria and correctly declared itself exempt?	As the Parish Council had gross income and expenditure not exceeding £25,000 it was able to declare itself exempt from a limited assurance review.
	During the Summer 2019 did the smaller authority demonstrate that it correctly provided for the exercise of public right as required by the Accounts and Audit Regulations?	The Internal Auditor is unable to verify that the details of the arrangements for the exercise of public rights for the period ending 31 <sup>st</sup> March 2019 were on the public website used by the Council or were met.
	Have the publication requirements been met in accordance with the Audit & Accounts Regulations of 2015	<p>The Council has not complied with the requirements of the Accounts and Audit Regulations 2015, the Local Audit (Smaller Authorities) Regulations 2015 and the Transparency Code for Smaller Authorities and has only published the following on a public website:</p> <p>Certificate of Exemption</p> <p>Annual Internal Audit Report of the AGAR</p> <p>Section 1 – Annual Governance Statement of the AGAR</p> <p>Section 2 – Accounting Statements of the AGAR</p> <p><i>The following should also have been published on its website:</i></p> <p>Notice of the period for the exercise of public rights and other information required by Regulation 15 (2) Accounts and Audit Regulations 2015.</p> <p>Bank Reconciliation for the period ending 31<sup>st</sup> March 2019</p> <p>Analysis of variances</p> <p><i>Comment: Council should be aware that all of the above should</i></p>

		<i>be published on its website by 31 August 2020 for the year ending 31 March 2020 (The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020)</i>
<b>12. Internal audit for the year ending 31 March 2019</b>	Verifying that the previous internal audit reports have been considered by the Council	The Internal Auditor's Report for the year ending 31 <sup>st</sup> March 2019 was considered and accepted at the meeting of the Parish Council on 20 <sup>th</sup> November 2019.
	Verifying that appropriate action has been taken regarding recommendations raised in reports from Internal Audit	<p>The following recommendations raised in the report from the internal audit was considered and by the council and an audit plan is being worked upon by the Clerk appointed in September 2019: (those in bold are outstanding)</p> <ol style="list-style-type: none"> <li>1. Review SOs and FRs on a regular basis</li> <li>2. Written system for approval of payments at meetings</li> <li>3. Recovery of VAT in a timely manner</li> <li><b>4. Annual review of insurance</b></li> <li><b>5. Annual review of effectiveness of internal audit</b></li> <li>6. Specification of income and expenditure budgets set in minutes</li> <li>7. Specification of precept approved</li> <li><b>8. Regular reporting of variances against budget</b></li> <li><b>9. Review of reserves held as general reserves</b></li> <li><b>10. Review of payroll practices in respect of employment and pension legislation</b></li> <li>11. Review of asset register in terms of ownership / responsibility and insurance cover</li> <li>12. Verification that the bank statements have been carried out by the Council / a member</li> <li>13. Council to agree that it fulfils the exemption criteria</li> <li><b>14. Publish information in accordance with the Audit and Accounts Regulations 2015</b></li> <li>15. Consideration of the Internal Audit Report by Council</li> <li>16. Reporting of all correspondence from the external auditor</li> <li>17. Registration with the ICO as a Data Controller</li> <li><b>18. Compliance with the GDPR</b></li> </ol>
	Confirmation of appointment of Internal Auditor	It is assumed that the appointment of SALC as the Council's Internal Auditor was retrospectively agreed at the meeting of 20 <sup>th</sup> May 2020.

<b>13.External audit for the year ending 31 March 2019</b>	Verifying that the external audit report has been considered by the Council	No external report was provided by the external auditors as the Council was able to certify itself as exempt from a Limited Assurance Review.
<b>14. Additional Comments</b>	Annual meeting - held in accordance with legislation	<p>Whilst the Annual Meeting of the Parish Council was called for in May 2019 there are no minutes available to ascertain whether the meeting was held or the first item on the agenda was the election of the Chairman in accordance with the Local Government Act of 1972 15(1).</p> <p><b>Recommendation: Council should be aware of its duty to hold an Annual Meeting of the Parish Council in May. The Local Government Act 1972 requires local Councils to convene an Annual Meeting of the Council to be held in May, unless it is a year of an ordinary election in which case it must hold it on the fourth day after the election or within the following 14 days.</b></p>
	Meetings - held in accordance with legislation	<p>It is noted that a number of minutes are still showing in DRAFT form on the website and yet have been approved at following meetings.</p> <p><i>Comment: Council should review its own SO12f which states that "following a resolution which confirms the accuracy of the minutes of a meeting, the draft minutes or recordings of the meeting for which approved minutes exist shall be destroyed." Council would be advised to remove the Draft versions and replace them with the approved versions so as to avoid confusion.</i></p>
	Correct identification of trustee responsibilities	The council does not act as the sole trustee for any trusts.
	Verification that the applicable Transparency Code has been correctly applied and information is published in accordance with current legislation	<p>To ensure compliance with the requirements of the Transparency Code for smaller authorities (turnover not exceeding £25,000), Council should have published all of the following on a public website for the year 2018/190 not later than 1 July 2019:</p> <p>Internal Audit Report List of Councillors and Responsibilities</p>

		<p>Items of Expenditure Above £100 including recoverable and non-recoverable VAT  End of Year Accounts  Annual Governance Statement  Asset Register  and that Agendas of Meetings; Associated Papers and Minutes should be published in accordance with the prescribed timescales as set out in the Transparency code for smaller authorities – December 2014.</p> <p><b>Recommendation: Council should ensure that the above list is published on its website by July 1<sup>st</sup> 2020 for the year ending 31<sup>st</sup> March 2020 and that the Agendas of Meetings; Associated Papers and Minutes for all meetings throughout the year are published in accordance with the prescribed timescales as set out in the Transparency code for smaller authorities – December 2014.</b></p>
	Verifying that the council is registered with the ICO	The Council is registered with the Information Commissioner’s Office (ICO) as a Data Controller. Registration A8698592 refers.
	<p>Verifying that the Council is compliant with the General Data Protection Regulation requirements  Are the following in place:</p> <ul style="list-style-type: none"> <li>• Audit / Impact Assessment</li> <li>• Privacy Notices</li> <li>• Procedures for dealing with Subject Access Requests</li> <li>• Procedure for dealing with Data Breaches</li> <li>• Data Retention &amp; Disposal Policies</li> </ul>	<p>The Clerk to the Council is taking steps to ensure that Council is working towards compliancy with the GDPR requirements.</p> <p><b>Recommendation: the list opposite should be completed, adopted, adhered to and available to view on the parish council's website as this will provide evidence that Council is meeting the requirements of the GDPR</b>  <b>Templates for the above can be found on the SALC website:</b>  <a href="https://www.salc.org.uk/advice/informationmanagement/">https://www.salc.org.uk/advice/informationmanagement/</a></p>

Signed: *T S Waples*

Date of Internal Audit: 23.06.2020  
On behalf of Suffolk Association of Local Councils

Date of Internal Audit Report: 25.06.2020