

Internal Audit Report Year ending: 31st March 2020

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| Name of Council: | MELLIS PARISH COUNCIL |
| Income: | £9,138.39 |
| Expenditure: | £6,244.84 |
| Precept Figure: | £7,900.00 |
| General Reserve: | £6,049.57 |
| Earmarked Reserves: | £12,798.00 |
| | <p>Whilst a number of weaknesses have been highlighted within the Internal Audit Report which has demonstrated that the council failed to accord with proper governance practices ('proper practices') for the year ending 31st March 2020, it is noted that the Council employed a new Clerk effective November 2019, who is in the process of working through an audit plan which will take into account measures to ensure that matters raised within this internal audit report and that of 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 |
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| 1. Proper Book-keeping | Type of cash book or ledger used | The council used an excel spreadsheet as the basis for the Council's accounting system. |
| | Cash book kept up to date and regularly verified against bank statement | The Cashbook 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 found to be in order. <i>Comment: the Responsible Financial Officer is aware that whilst the cash book is the focus for day-to-day accounting, and the cash book is updated to record all of these transactions, he should ensure that there is a full reconciliation across the spreadsheets being used. It is anticipated that this issue will be resolved with the use of the Scribe Accounting Package.</i> |
| 2. Financial Regulations & Standing Orders | Evidence that standing orders have been adopted and reviewed regularly | The Council's Standing Orders as reviewed at the meeting of 14 th January 2020 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 (FRs) have been adopted and reviewed regularly | The Council's Financial Regulations were also reviewed at the above meeting of and are based on the 2019 Model Financial Regulations as produced by NALC. |
| | Evidence that a Responsible Financial Officer (RFO) 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. The minutes of the meeting of 11 th July 2019 confirm the appointment of the new Clerk/RFO. |
| | Evidence that Financial Regulations have been tailored to the Council | The Council's Financial Regulations are tailored to the Parish Council. |
| 3. Payment controls | Supporting paperwork for payments, and appropriate authorisation | Spot checks on the payment file were cross checked against cash book, bank statement, invoice and minutes. The following comment should be noted: whilst the Council does not exercise the General Power of Competence it has used this power to authorise items of expenditure. Recommendation: it is the responsibility of Councillors to satisfy themselves that they have the appropriate legal power to incur |

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| | | expense, thereby it is a requirement that the council ensures that all financial decisions or payments being made are in accordance with statute and the Council is not undertaking any decisions or payments that are ultra vires. To exercise this power, Council needs to have confirmed at either the annual meeting immediately after the next elections for the parish council or an ordinary meeting during the year, that it fulfils the criteria and resolved to adopt the General Power of Competence. |
| | Internet Banking transactions properly recorded/approved | Internet banking is not operated by the Council. |
| | VAT correctly identified and reclaimed within time limits | VAT is identified in the cash book. The claim for the period 1 st April 2018 to 31 st March 2019 in the sum of £1,238.39 was settled during the year under review. The year-end period shows VAT due of £134.82. |
| | Has Council adopted the General Power of Competence and is it being correctly applied? | The Council does not exercise the General Power of Competence. |
| | S137 separately recorded, minuted and within statutory limits | There was one payments made under this power for the year under review in the sum of £25.00 which is within statutory limits and identified within the Council's accounting system. |
| | Payments of interest and principal sums in respect of loans, are paid in accordance with agreements | Council has no such loans. |
| 4. Risk Management | Is there evidence of risk assessment documentation? | <p>The Risk Assessment Document for the period 1st April 2019 to 31st March 2019 was reviewed and adopted at a meeting on 11th February 2020. The document covers in general terms the matters which could possibly prevent a smaller relevant body from functioning.</p> <p><i>Comment: Overall within its Risk Assessment Document, Council has identified a number of risks to property; finances and personnel and has taken steps to control the risk - all of which are clearly identified within the document as approved by Full Council. There is however little detail on the specific control procedures that have been adopted by the council for payments to not protect the RFO but also fulfils an internal control objective.</i></p> |
| | Appropriate Insurance cover in place for employment, public liability and fidelity guarantee. | General Insurance is under a Parish Protect Policy from Zurich for the period from 30 th September 2019 to 30 th September 2020 which |

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| | | shows core cover: Business Interruption; Public & Products Liability; Employer's Liability; Office Contents; Libel & Slander; Officials Indemnity; Personal Accident and Legal Expenses and premises cover for the Village Hall. Fidelity Guarantee Cover is £25,000, which given the current balances held by the Council is within recommended guidelines. |
| | Evidence that insurance is adequate and has been reviewed on an annual basis | <p>Whilst Council renewed its insurance cover during the year under consideration, there is no minute to record that a review had been carried out of the insurance held or to be held.</p> <p><i>Comment: in accordance with Proper Practices, whilst Council has taken steps to manage its key risks in a way which it can justify to a level which is tolerable by transferring the risk and taking out insurance, it should also ensure that the review of the insurance cover as carried out by the RFO, is reported back to the Council and minuted to state that appropriate insurance is in place to help manage the potential consequences of a risk occurring.</i></p> |
| | Evidence that internal controls are documented and regularly reviewed | <p>There is no evidence within the minutes and files submitted for internal audit that the parish council has undertaken a review of the effectiveness of the system of internal control during the year under review or has carried out a review on the Council's internal controls to ascertain whether there are sufficient safeguards in place to protect public money. This review will be required to inform the authority's preparation of its annual governance statement.</p> <p>Recommendation: with reference to the Accounts and Audit Regulations 2015, Council should note the requirement to have in place safe and efficient arrangements to safeguard public money. Council should take steps to ensure that it reviews its arrangements to protect public money during the coming year and minutes that such a review has taken place.</p> |
| | 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 or considered during the year under review as the meeting for 10th March 2020 was cancelled. Instead, this was discussed by full Council at its meeting in 12 th May 2020 during which the terms of reference for the audit service offered by SALC were discussed and agreed. |

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| | | <p>Recommendation: Council should be mindful of guidance which states that it should at least annually, carry out a review of the effectiveness of its internal audit arrangements.</p> |
| | Verifying that the budget has been properly prepared, and agreed | <p>The budget for the year 2019/20 in the sum of £10,110.78 was discussed and approved by full Council at its meeting of 10th January 2019.</p> <p><i>Comment: Council has understood the key stages as to the budgetary process to be followed in setting the budget for the year:</i></p> <ul style="list-style-type: none"> • <i>decide the form and level of detail of the budget;</i> • <i>review the current year budget and spending;</i> • <i>determine the cost of spending plans;</i> • <i>assess levels of income;</i> • <i>provide for contingencies and consider the need for reserves;</i> • <i>approve the budget.</i> |
| 5. Budgetary controls | Verifying that the Precept amount has been agreed in full Council and clearly minuted | The precept was set at £7,900 and formally approved at a meeting of 10 th January 2019. |
| | Regular reporting of expenditure and variances from budget | <p>There was no reporting in the minutes of the monitoring of expenditure and income against budget identifying period and year-to-date variances.</p> <p>Recommendation: Council should be mindful that proper practises state that reviewing the budget against actual expenditure regularly gives members early warning about the likelihood of a shortfall (or surplus) and helps them to decide what responsive action to take. Council should consider following Model Standing Order 17c which requires the RFO to supply, on a quarterly basis a statement which summarizes: the receipts and payment for each quarter; the aggregate receipts and payments for year to date; balance held at the end of each quarter being reported and which includes a comparison with the budget for the financial year and highlights any actual or potential overspends. It is understood that the RFO will be implementing this system for the year 2020-2021.</p> |
| | Reserves held General and Earmarked. | At year-end Council had general reserves of £6,049.57; earmarked reserves of £12,798.00. |

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| | | <i>Comment: 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. This level should be annually reviewed and should be sufficient alongside contingency sums to meet, within reason, any unforeseen items of expense that may occur.</i> |
| | Is income properly recorded and promptly banked? | The items of income were cross checked against cash book and bank statement. In accordance with Proper Practices, the RFO ensures that the accounting records contain entries from day to day of all sums of money received. |
| 6. Income controls | Is income reported to full Council? | Latterly in 2019-20, all income received by the parish council was to be reported as part of the Financial Reports submitted by the RFO. |
| | Does the Precept recorded agree to the Council Tax Authority's notification? | The council received precept of £7,900 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 14th January 2019, served on the Charging Authority to receipt of same in the Council's Bank Account.</i> |
| | If appropriate, are CIL Reporting Schedules in accordance with the Community Infrastructure Levy Regulations 2010? | There were no CIL funds received in the year under review. |
| 7. Petty Cash | 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. |
| 8. Payroll controls | Do all employees have contracts of employment? | Council had 1 employee on its payroll at the period end of 31 st March 2020 Employment contracts were not reviewed during the internal audit. |
| | 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. | 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> |
| | Do salary payments include deductions for PAYE/NIC? | The payroll function is operated by SALC in accordance with HM Revenue and Customs guidelines. |
| | Is PAYE/NIC paid promptly to HMRC? | |

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| | | <i>Comment: there are suitable payroll arrangements in place which ensures the accuracy and legitimacy of payments of salaries and wages, and associated liabilities and as such the Council has complied with its duties under employment legislation.</i> |
| | Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation? | During the year, there were no pension contributions due. It was reported at the meeting of 9 th September 2019 that the Parish Council had registered as an employer with The Pensions Regulator under the Pensions Act 2008. The RFO has confirmed that the actual declaration of compliance deadline with the Pensions Regulator was 19 th July 2018. This has since been correct and the declaration of compliance deadline with the Pensions Regulator was processed on 23 rd June 2020. |
| | Verifying the Council maintains an Asset Register in accordance with proper practises | The Asset Register was reviewed during the Internal Audit Visit for year-end and is stated at £13,645.00. 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. <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> |
| 9. Asset control | Verifying that the Asset Register is reviewed annually | The Asset Register value (£13,794) has been stated on the AGAR which is to unsigned 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. Content Items (other property) are generic under the All Risks Category and have been given insurance value in accordance with the policy operated by the insurance company. |
| | Regularly completed and reconciled with cash book | There was limited reporting of bank reconciliations during the year which were not completed on a regular basis although those submitted for internal audit did reconcile with the cash sheets. <i>Comment: the Council, as evidence of good financial practice, has</i> |

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| | | <i>appointed two Councillors to verify the bank reconciliations as carried out by the RFO. This not only safeguards the Responsible Financial Officer but also fulfils an internal control objective.</i> |
| 10. Bank reconciliation | Confirm bank balances agree with bank statements | Bank balances agree with period end statements and as at 31 st March 2020 stand at: £18,847.57. |
| | Regular reporting of bank balances at council meetings | Overall, there was limited reporting of bank balances within the financial reports submitted to the parish council. <i>Comment: Council is aware that, in accordance with Proper Practices, the bank reconciliation is a key tool for management as it assists with the regular monitoring of cash flows which aids decision-making. It is for the parish council to decide how regularly it wants to receive the assurance that a successful reconciliation can provide, but reconciling the cash book to bank statements should be reported to members, and the full reconciliation made available for their scrutiny each time it is done. The RFO should ensure that for the year 2020-2021 bank reconciliations are completed on a regular basis and reported in accordance with proper practices.</i> |
| | Appropriate accounting procedures used | Accounts are produced on a receipts and expenditure basis. All were found to be in order. |
| 11. Year-end procedures | Financial trail from records to presented accounts | Whilst there is an underlying financial trail from financial records to the accounts produced, the internal auditor has noted that a number of minutes were missing from the website although a full set was submitted for internal audit.. |
| | Has the appropriate end of year AGAR documents been completed? | As Council is a smaller authority with gross income and expenditure not exceeding £25,000 it has completed Part 2 of the AGAR which was unsigned at the time of internal audit. |
| | 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 was able to confirm that the details of the arrangements for the exercise of public rights for the period ending 31 st March 2019 were not of sufficient length in time to be compliant with the Accounts and Audit Regulations 2015 - period given was 01.07.19 to 09.07.19. |

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| | <p>Recommendation: under The Accounts and Audit 2015, the period for the exercise of public rights for the summer 2019 should have included the first 10 working days of July and should have lasted for a period of 30 working days inclusive. As such, Council is advised to respond in the negative to Assertion 4 of the Annual Governance Statement.</p> |
| <p>Have the publication requirements been met in accordance with the Audit & Accounts Regulations of 2015</p> | <p>The Council partially complied with the requirements of the Accounts and Audit Regulations 2015 for smaller authorities with income and expenditure not exceeding £25,000 for the year ending 31st March 2019 and published the following on a public website:</p> <p>Certificate of Exemption - <i>there was a problem accessing this document</i></p> <p>Annual Internal Audit Report of the AGAR - <i>there was a problem accessing this document</i></p> <p>Section 1 – Annual Governance Statement of the AGAR - <i>there was a problem accessing this document</i></p> <p>Section 2 – Accounting Statements of the AGAR - <i>there was a problem accessing this document</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>Analysis of variances</p> <p>The following were not published: Bank Reconciliation for the period ending 31st March 2019</p> <p><i>Comment: Council is aware that all of the above should be published on its website for the year 2019/20 by 31 August 2020 (The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020</i></p> |
| <p>Verifying that the previous internal audit reports have been considered by the Council</p> | <p>The Report for the year ending 31st March 2019 was considered and accepted at the meeting of the Council on 11th July 2019 with a further review carried out and reported to full council at its meeting of 12th May 2020 as the meeting scheduled for 10th March 2020 was cancelled.</p> |

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| 12. Internal audit for year ending 31 March 2019 | Verifying that appropriate action has been taken regarding recommendations raised in reports from Internal Audit | The following recommendations raised in the report from the internal audit were considered by the parish council at the above meeting: 1. Undertake an annual risk assessment - completed 2. Review the AGAR with reference to agreement between the Exemption Certificate and the Accounting Statements 3. Compliance with the Transparency Code 2014 - ongoing |
| | Confirmation of appointment of Internal Auditor | SALC was appointed to act as the Parish Council's Internal Auditors at a meeting of full Council of 11 th July 2019 for the year ending 31 st March 2020. |
| | Verifying that the external audit report has been considered by the Council | As Council was a smaller authority with income and expenditure not exceeding £25,000 it was not subject to an intermediate review undertaken by the External Auditors. |
| 13. External audit for the year ending 31 March 2019 | Annual meeting - held in accordance with legislation | The Annual Meeting of the Parish Council was held on 9 th May 2019 with the first item on the agenda being the election of the Chairman in accordance with the Local Government Act of 1972 15(1). <i>Comment: it should be noted that the minutes for this meeting are still in Draft form. 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 Documents so as to avoid confusion.</i> |
| 14. Additional Comments | 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 | To ensure compliance with the requirements of the Transparency Code for smaller authorities (turnover not exceeding £25,000), Council should be aware that the following must be published on a public website for the year 2019/20 not later than 1 July: Internal Audit Report List of Councillors and Responsibilities Items of Expenditure Above £100 including recoverable and non-recoverable VAT End of Year Accounts Annual Governance Statement Asset Register |

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| | | <p>and that Agendas of Meetings; Associated Papers and Minutes should all be published in accordance with the prescribed timescales as set out in the Transparency code for smaller authorities – December 2014</p> <p><i>Comment: the minutes for the meetings of 11th July 2019 and 12th September 2019 could not be verified as being published on the council's website at the time of internal audit.</i></p> |
| | Verifying that the council is registered with the ICO | The Council is correctly registered with the Information Commissioner's Office (ICO) as a Data Controller in accordance with the Data Protection Legislation. Registration No. Z9140010 refers. |
| | Verifying that the Council is compliant with the General Data Protection Regulation requirements | <p>Council is taking steps to ensure compliancy with the GDPR requirements. A General Privacy Notice was seen on the parish council's website along with an audit/impact assessment.</p> <p><i>Comment: to ensure compliancy with the GDPR requirements, Council may wish to consider producing futher policies that provide clear responsibilities and obligations of the Council in respect of the collecting, using and protecting of personal information in accordance with the provisions of the GDPR. Policies that should be considered are: Procedures for dealing with Subject Access Request; Procedure for dealing with Data Breaches; Data Retention & Disposal Policies and BYOD Policies.</i></p> |

Signed: *T S Waples*

On behalf of Suffolk Association of Local Councils

Date of Internal Audit: 28.06.2020

Date of Internal Audit Report: 02.07.2020