

Internal Audit Report for Hemingstone Parish Council for the year ending 31st March 2021

Clerk	Rod Caird
RFO (if different)	
Chairperson	Mohammed Touman
Precept	£2,040.00
Income	£2,077.00
Expenditure	£1,921.00
General reserves	£2,000.00
Earmarked reserves	£1,500.00
Audit type	Annual
Auditor name	Julie Lawes

Introduction

The primary objective of internal audit is to review, appraise and report upon the adequacy of internal control systems operating throughout the council. To achieve this SALC 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

Methodology

When conducting the audit, the internal auditor 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 2020/21 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

Section 1 – proper bookkeeping		
The internal auditor will look at the methods and processes used to manage the council’s accounts and in particular that it provides clear data for reporting and monitoring purposes. This includes checking information is accurate, kept up to date, referenced and verified.		
Evidence		<i>Internal auditor commentary</i>
<i>Is the ledger maintained and up to date?</i>	YES	The council uses an excel spreadsheet to form the basis of their accounting system. It provides data for analysis allowing the RFO to produce clear financial management reports detailing receipts and payments and ensures that the financial transactions of the parish council are accurately recorded.
<i>Is the cash book up to date and regularly verified?</i>	YES	The cash book provides good evidence to support the councils underlying statements. Monthly reports are generated and circulated to councillors detailing expenditure and income at each full council meeting.
<i>Is the arithmetic correct?</i>	YES	Accounting records were spot checked. They are well maintained and clearly identify expenditure and income at any given point.
Additional comments:		

Section 2 – Financial Regulation and Standing Orders		
The internal auditor will check the date the Council carried out its annual review of both Standing Orders and Financial Regulations and in particular check if these are based on NALC'S latest model which include legislative changes.		
Evidence		<i>Internal auditor commentary</i>
Have Standing Orders been adopted, up to date and reviewed annually?	YES	At a meeting on 17 th September 2020 the council carried out an annual review of its Standing Orders, these are available to view on the councils website and are based on the Model Standing Orders produced by NALC IN 2018 which take into account changes in legislation from those produced in 2013.
Are Financial Regulations up to date and reviewed annually?	YES	Financial Regulations were reviewed and agreed at a council meeting held 17 th September 2020. These are available to view on the council's website and are based on the NALC Model Financial Regulations 2019.
Has the Council properly tailored the Financial Regulations?	YES	The Financial Regulations have been tailored to the council.
Has the Council appointed a Responsible Financial Officer (RFO)? ¹	YES	In accordance with Section 151 of the Local Government Act 1972 (D) (Financial Administration), the council appointed the clerk as the Responsible Financial Officer in accordance with the councils adopted Financial Regulations (1.8).
<i>Additional comments:</i>		

¹ Section 151 Local Government Act 1972 (d)

Section 3 – Payment controls		
The internal auditor will specifically check bank reconciliation including credit/debit cards and management approval processes and evidence that internal Financial Regulations (FO) are being followed. The internal auditor will examine how regular payments are managed and specifically seek evidence that these have been brought back to the Council for verification purposes especially where the actual payment made differs from the amount previously agreed. VAT should be clearly identified including evidence that claims have been correctly managed. The internal auditor will check if the Council has a clear understanding on eligibility in relation to the General Power of Competence and that s.137 has been correctly applied and managed.		
Evidence		<i>Internal auditor commentary</i>
Is there supporting paperwork for payments with appropriate authorisation?	YES	A selection of expenditure items was made, and cross checked against the cash book, invoices and bank statements. A list of payments is presented to councillors ensure formal approval of expenditure and this is correctly minuted. This demonstrates good practice in that there are measures in place that help safeguard public money.
Where applicable, are internet banking transactions properly recorded and approved?	N/A	The council does not operate online banking
Is VAT correctly identified, recorded and claimed within time limits?	YES	The claim 2020 in the sum of £37.23 was made to HM Revenue & Customs on 29 th June 2020.
Has the Council adopted the General Power of Competence (GPOC) and is there evidence this is being applied correctly? ²	N/A	The council does not use the General Power of Competence.
Are payments under s.137 ³ separately recorded, minuted and is there evidence of direct benefit to electorate?	N/A	There was no s.137 payments identified for the year under review.

² Localism Act

³ Section 137 of the Local Government Act 1972 (“the 1972 Act”) enables local councils to spend a limited amount of money for purposes for which they have no other specific statutory expenditure. The basic power is for a local council to spend money (subject to the statutory limit – of £8.12 per elector) on purposes for the direct benefit of its area, or part of its area, or all or some of its inhabitants.

Where applicable, are payments of interest and principal sums in respect of loans paid in accordance with agreements?	N/A	The council has no such loans
Additional comments:		

Section 4 – Risk management		
The internal auditor will expect to find evidence of the management of risks from identification of what those are for each individual Council through to how these will be managed and the controls in place to mitigate these and that these have been approved by the Council.		
Evidence		Internal auditor commentary
<i>Is there evidence of risk assessment documentation?</i>	YES	This was considered for the period under review at the meeting of the council on 17 th September 2020 and covers in general terms the matters which would prevent a smaller relevant body from functioning. The document details high, medium and low risks to the council and shows clear and concise consideration has been taken to enable good decision making.
<i>Is there evidence that risks are being identified and managed?</i>	YES	There is evidence that the council has taken action to identify and assess financial risks and has considered what actions or decisions it needs to take during the year in order to avoid financial consequences.
<i>Does the Council have appropriate and adequate insurance cover in place for employment, public liability and fidelity guarantee and has been reviewed on an annual basis?</i>	YES	Council has insurance in place under a Parish Protect Policy with Community Action Suffolk which shows core cover of the following: Public Liability £10m; Public / Products Liability £10m; Business Interruption £5k and Fidelity Guarantee £25k. The level of Fidelity Guarantee meets recommended guidelines which advises that cover should be at least the sum of the year-end balances plus 50% of the precept / grants.

<i>Evidence that internal controls are documented and regularly reviewed⁴</i>	NO	Recommendation: Council should look to review its internal controls regularly throughout the year.
<i>Evidence that a review of the effectiveness of internal audit has been carried out during the year⁵</i>	NO	There is no minute to show that Council has reviewed the effectiveness of internal audit during the year under review. Recommendation: By reviewing the terms of reference for internal audit, Council would have followed guidance within the Governance and Accountability Guide and recognised 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.
Additional comments:		

⁴ Accounts and Audit Regulations

⁵ Governance and Accountability Guide

Section 5 – Budgetary controls		
The internal auditor will seek verification that budgets are properly prepared, agreed and monitored. In particular they will look for evidence of good practice in that the key stages of the budgetary process have been followed		
Evidence		Internal auditor commentary
<i>Verify that budget has been properly prepared and agreed</i>	YES	The budget for the year 2020/2021 in the sum of £2,588 was approved by full council at a meeting on 16 th January 2020.
<i>Verify that the precept amount has been agreed in full Council and clearly minuted</i>	YES	The precept was set at £2,040 and formally approved at a meeting of full council on 16 th January 2020.
<i>Regular reporting of expenditure and variances from budget</i>	YES	In accordance with the Internal Control statement and the councils own Standing Orders the council receives a monthly updated expenditure report alongside bank statements detailing spend versus budget.
<i>Reserves held – general and earmarked⁶</i>	YES	The councils final accounts show general reserves in the sum of £2,000 with earmarked reserves in the sum of £1,500. Proper practice states that it is regarded as acceptable for a councils general (non-earmarked revenue) reserves to be equal to 3 to 12 months of net revenue expenditure. There is no upper limit for earmarked reserves, but they should be held for genuine and intended purposes and their level subject to regular review and justification (at least annually). Comment: Council should note guidance as issued under the Practitioners Guide which states that an authority needs to have regards to the need to put in place a General Reserve Policy and review the level and purpose of all general and earmarked reserves at least annually.
Additional comments: Budget: The council shows good practice by following the recommended key stages as to the budgetary process to be followed for the year, namely: <ul style="list-style-type: none"> • Decide the form and level of detail in the budget • Review the current year budget and spending 		

⁶ In accordance with proper practices, the generally accepted minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three (3) and twelve (12) months of Net Revenue Expenditure

- Assess levels of income
- Provide for contingencies and consider needs of reserves
- Approve the budget
- Confirm the precept or rates and special levies and
- Review progress against the budget regularly throughout the year

Section 6 – income controls		
The internal auditor will seek evidence to ensure income is correct managed – recorded, banked and reported and test mechanisms used to achieve this.		
Evidence		Internal auditor commentary
<i>Is income properly recorded and promptly banked?</i>	YES	Several items were cross checked against the cash book and bank statement and found to be in order. In accordance with proper practices the Responsible Financial Officer ensures that accounting records contain day to day entries of all sums of money and that income received is properly accounted for.
<i>Is income reported to full council?</i>	YES	Income received is reported to full council within the monthly financial reports.
<i>Does the precept recorded agree to the Council Tax Authority's notification?</i>	YES	The council received a precept of £2,040 during the year under review in April and September.
<i>If appropriate, are CIL reporting schedules in accordance with the Regulations?⁷</i>	YES	CIL funds for the year under review show no income received or expenditure made, with outstanding funds of £1,264.69.
<i>Is CIL income reported to the council?</i>	N/A	An Annual CIL Return was agreed by full council 17 th September 2020 to be issued to the District Council but the copy provided on the councils own website is blank. Recommendation: Council should comply with its duty to produce an annual report that details the amount of CIL funds received, spent and outstanding, and publish this report on its website.
<i>Does unspent CIL income form part of earmarked reserves?</i>	YES	
<i>Has an annual report been produced?</i>	NO	
<i>Has it been published on the authority's website?</i>	NO	
Additional comments:		

⁷ Community Infrastructure Levy Regulations 2010

Section 7 – petty cash		
The Internal Auditor will seek evidence that the Council has followed its own policies, procedures and verification processes and that these are up to date.		
Evidence		Internal auditor commentary
<i>Is petty cash in operation?</i>	N/A	The council does not operate a petty cash system
<i>If appropriate, is there an adequate control system in place?</i>	N/A	
Additional comments:		

Section 8 – Payroll controls		
The Internal Auditor will check salaries are approved in accordance with PAYE, NI, Pension and that there is a clear understanding that the clerk is not self-employed. If the Clerk was recruited after 1 st April 201, evidence will be required to show compliance with the new requirements for the statement of employment, Induction, probation periods and training requirements. The Internal Auditor will also review how payroll is managed including evidence of approval of payslips.		
Evidence		Internal auditor commentary
<i>Do all employees have contracts of employment?</i>	N/A	Council had 1 employee on its payroll at the period end of 31 st March 2021 which is managed by Ladywell Accountancy Services. Employment contract was not reviewed during the internal audit, but evidence confirms salary payments are authorised by full council. The remuneration payable to the employee has been approved in advance by the council within the budget setting process.
<i>Has the Council approved salary paid?</i>	YES	
<i>Minimum wage paid?</i>	NO	
<i>Are arrangements in place for authorising of the payroll and payments to the council? Does this include a verification process for agreeing rates of pay to be applied?</i>	YES	The payroll function is operated in accordance with HM Revenue & Customs guidelines. 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>Do salary payments include deductions for PAYE/NIC? Is PAYE/NIC paid promptly to HMRC?</i>	YES	In accordance with proper practices, PAYE taxes and employee and employer National Insurance contributions (NIC) are calculated and recorded. Deductions are paid to HM Revenue and Customs.
<i>Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?⁸</i>	YES	It is noted that during the previous audit the council provided evidence that it has complied with its duties submitting a re-declaration of compliance to the Pensions Regulator.
<i>Are there any other payments (e.g.: expenses) and are these reasonable and approved by the Council?</i>	YES	Any additional costs / expenses incurred by the clerk are reported to full council.
Additional comments: For information, council should note the changes in the Practitioners Guide for 2020 on the treatment of what can be included as employment expenses within the Annual Governance and Accountability Guide 2020. If applicable, any working from home payments are not to be included within Staff Costs and should be allocated within All Other Payments on the AGAR.		

⁸ The Pension Regulator – [website click here](#)

Section 9 – Asset control		
The Internal Audit will be seeking to establish if there is a list of assets in accordance with proper practices including the date of acquisition, location and value. This extends to checking policies (with evidence of review) and that the Council has applied the documented approach in practice. The Internal Auditor will check not only valuation processes but the existence of reserve budgets for depreciation and adequacy of insurance. A clear audit trail should be available when items are purchased including minutes to evidence approval.		
Evidence		Internal auditor commentary
<i>Does the Council maintain a register of material assets it owns and manage this in accordance with proper practices?⁹</i>	YES	The Asset Register lists items under insurance that fall within the councils remit for maintenance and ownership.
<i>Are the value of the assets included? (note value for insurance purposes may differ)</i>	YES	
<i>Are records of deeds, articles, land registry title number available?</i>	NO	
<i>Is the asset register up to date and reviewed annually?</i>	NO	Comment: The Internal Auditor was unable to locate an Asset Register on the council's website prior to 2019 and could find no evidence of this being reviewed during the year under audit.
<i>Cross checking of insurance cover</i>	YES	Contents other (other property) are generic under heading within the 'All Risks Category' and have been given a value in accordance with the policy held.
Additional comments: For information, Council should be mindful of the guidance in Governance and Accountability for Smaller Authorities for England (March 2019) regarding valuation of assets and ensured that where the acquisition value of the asset at the time of first recording is used, that method of valuation has been applied consistently and if / where amended it will need to publish and provide explanations in changes in value to any previously recorded assets.		

⁹ Governance and Accountability for Smaller Authorities in England – March 2019

Section 10 – bank reconciliation		
The internal auditor will seek to establish that the Council understands and can evidence good practice and internal control mechanisms in relation to bank reconciliation.		
Evidence		Internal auditor commentary
<i>Is bank reconciliation regularly completed and reconciled with the cash book and cover every account?</i>	YES	Bank Reconciliations are completed on a regular basis and reconcile with the cash sheets. There are consistent monthly reports of bank balances within the detailed financial reports submitted to councillors for each meeting.
<i>Do bank balances agree with bank statements?</i>	YES	Bank balances agree with the period end statements and, as at year end (31 st March) for the period under review the balance across the council's accounts stood at £5,679.11.
<i>Is there regular reporting of bank balances at Council meetings?</i>	YES	Financial reports are submitted to council. The council is aware that in accordance with proper practices, the bank reconciliation is a key tool or management as it assists with the regular monitoring of cash flows and therefore aids decision making.

Section 11 – year end procedures		
Evidence		<i>Internal auditor commentary</i>
<i>Are appropriate accounting procedures used?</i>	YES	Accounts are produced on a receipts and payments basis and all are found to be in order.
<i>Financial trail from records to presented accounts</i>	YES	The end of year accounts and supporting documentation were well presented for the internal auditor to review.
<i>Has the appropriate end of year AGAR¹⁰ documents been completed?</i>	YES	The council is a smaller authority with a gross income and expenditure not exceeding £25,000 and is therefore exempt. The Certificate of Exemption Part 2, Section 1 The Annual Governance Statement and Section 2 The Accounting Statement have been completed.
<i>Did the Council meet the exemption criteria and correctly declared itself exempt?</i>	<i>Partly Met</i>	As the council was a smaller authority with a gross income and expenditure not exceeding £25,000 for the period under review, it was able to certify itself as an exempt authority. Comment: The AGAR was agreed and signed at a meeting of full council on 21 st May 2020. Council should ensure it minutes the fact that it is certifying itself exempt.
<i>During the period in question did the small authority demonstrate that it correctly provided for the exercise of public right as required by the Accounts and Audit Regulations 2015?</i>	YES	
<i>Have the publication requirements been met in accordance with the Regulations?¹¹</i>	YES	The council has complied with the requirements of the Accounts and Audit Regulations 2015 for smaller authorities with an income and expenditure not exceeding £25,000, and published the following on their public website: Section 1 – Annual Governance Statement of the AGAR Section 2 – Annual Accounting Statements of the AGAR Notice of the period of exercise of public rights

¹⁰ Annual Governance & Accountability Return (AGAR)

¹¹ Accounts and Audit Regulations 2015

		Bank Reconciliation for the period ending 31 st March 2020 Annual Internal Report of the AGAR. Comment: An Analysis of variances was not provided on the website.
Additional comments:		

Section 12 – internal audit		
The internal auditor will revisit weaknesses and recommendations previously identified to see if these have been addressed. They will also check if any changes introduced require further verification to ensure effectiveness of the corrective action taken.		
Evidence		<i>Internal auditor commentary</i>
<i>Has the previous internal audit report been considered by the Council?</i>	YES	The Internal Audit was discussed by full council at a meeting held 17 th September 2020 with recommendations and comments addressed and rectified accordingly.
<i>Has appropriate action been taken regarding the recommendations raised?</i>	YES	Appropriate action has been taken for the items raised in the previous internal audit.
<i>Has the Council confirmed the appointment of an internal auditor?</i>	NO	Recommendation: Council should minute the appointment of an internal auditor.
Additional comments:		

Section 13 – external audit for the period under review		
The internal auditor will revisit the external audit so that previous weaknesses and recommendations can be taken into account.		
Evidence		<i>Internal auditor commentary</i>
<i>Has the previous external audit report been considered by the Council?¹²</i>	YES	The Limited Assurance Review for the period ending 2019/2020 was presented to full council at its meeting on 21st May 2020.
<i>Has appropriate action been taken regarding the comments raised?</i>	N/A	Council is an exempt authority,
Additional comments:		

¹² Regulation 20 Accounts and Audit Regulations 2015 – *following completion of an audit the Council should note that it is the Council as a whole (ie. All members) and not a committee that should receive and consider the audit letter (including Annual Return and Certificate) from the local auditor as soon as reasonably practicable and the minutes should reflect that these have been received.*

Section 14 – additional information		
The internal auditor will look for some additional evidence of good record keeping, compliance with data protection regulations, freedom of information and website accessibility regulations.		
Evidence		<i>Internal auditor commentary</i>
<i>Was the annual meeting held in accordance with legislation?</i> ¹³ <i>(note to auditor- emergency Regulations as a result of the COVID-19 pandemic)</i> ^{f14}	N/A	For the period in question, as a result of the COVID-19 pandemic the council chose not to hold an Annual Meeting of the Parish Council.
<i>Is there evidence that Minutes are administered in accordance with legislation?</i> ¹⁵	YES	Not seen as virtual audit. Full council minutes clearly document the approval of the previous month's minutes.
<i>Is there a list of members' interests held?</i>	YES	A link is provided on the council's website to the Mid Suffolk District Council page, however this link is broken. Evidence was seen on the Mid Suffolk site of members interests. Council is advised that whilst the Monitoring Officer of the council must arrange for the Parish Councils Register of Members Interests to be available for inspection on their website, where the Parish Council has its own website, its Register of Members Interests must also be published on that website. (Openness and Transparency on personal interests – A guide for councillors – August 2012)
<i>Does the Council have any Trustee responsibilities and if so are these clearly identified in a Trust Document?</i>	N/A	
<i>Has the Transparency Code been correctly applied and information published in accordance with current legislation?</i>	Partly Met	To ensure compliance with the requirements of the Transparency Code for smaller authorities (turnover not exceeding £25,000) council is aware that the following should be published on a public website: Internal Audit Report List of Councillors Responsibilities

¹³ The Local Government Act 1972 Schedule 12, paragraph 7 (2) and Schedule 15 (2)

¹⁴ The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020

¹⁵ Public Bodies (Admission to Meetings) Act 1960, Local Government Act 1972 and the Localism Act 2011

		Items of expenditure above £100 including recoverable and non-recoverable VAT End of year accounts Annual Governance Statements Asset Register And that agendas of meetings; associated papers and minutes should be published in accordance with prescribed timescales as set out in the Transparency Code for Smaller Authorities – December 2014.
<i>Has the Council registered with the Information Commissioner's Office (ICO)?¹⁶</i>	YES	The council is correctly registered with the IO as a Data Controller in accordance with legislation. Reference: ZA366887 Expiry Date: 27 th June 2021
<i>Is the Council compliant with the General Data Protection Regulation requirements?</i>	YES	The council has taken steps to ensure compliancy. Documents detailed on the council's website.
<i>Has the Council published a website accessibility statement on their website in line with Regulations?¹⁷</i>	NO	The council has not published on its website a Website Accessibility Statement.
<i>Is there evidence that electronic files are backed up?</i>	N/A	Not seen as virtual audit
Additional comments:		

Signed: J. Lawes

Date of Internal Audit Visit:

Date of Internal Audit Report: 8TH July 2021

On behalf of Suffolk Association of Local Councils

¹⁶ Data Protection Act 2018

¹⁷ Website Accessibility Regulations 2018