

Internal Audit Report for Hinderclay Parish Council
for the audit year ending 31/3/2021

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| Clerk | Matthew Larkin |
| RFO (if different) | |
| Chairperson | David Emerton |
| Precept | £ 5,150.00 |
| Income | £ 6,369.00 |
| Expenditure | £ 4,301.00 |
| General reserves | £ 9,659.00 |
| Earmarked reserves | £ 1,400.00 |
| Audit type | Annual |
| Auditor name | Linda Harley |

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. | | |
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| Evidence | | <i>Internal auditor commentary</i> |
| <i>Is the ledger maintained and up to date?</i> | Yes | The council uses spreadsheets to form the basis of their accounting system. It provides data for analysis allowing the RFO to produce clear financial management reports. |
| <i>Is the cash book up to date and regularly verified?</i> | Yes | The cashbook is up to date and regularly verified which provides good evidence to support the Council's accounting statements. |
| <i>Is the arithmetic correct?</i> | Yes | Arithmetic checked was correct. |
| 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. | | |
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| Evidence | | <i>Internal auditor commentary</i> |
| Have Standing Orders been adopted, up to date and reviewed annually? | Yes | Council have adopted NALC's Model Standing Orders 2018 at their meeting on 14/5/2020. The adoption of both Standing Orders and Financial Regulations is noted in the Internal Control Document. Comment: Council may wish to update the information relating to contracts, under 'Financial Controls and Procurement' which is out of date. |
| Are Financial Regulations up to date and reviewed annually? | Yes | Council have adopted NALC's Model Financial Regulation 2019 at their meeting on 14/5/2020. Comment: Council may wish to update the thresholds relating to contracts, which are out of date. |
| Has the Council properly tailored the Financial Regulations? | Yes | The Financial Regulations have been properly tailored to the Council. |
| Has the Council appointed a Responsible Financial Officer (RFO)? ¹ | Yes | It is noted in the Council's Internal Control Document that the Clerk is the Responsible Financial Officer. Comment: Council may wish to make a note of this appointment in their minutes. |
| Additional comments: | | |

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. | | |
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| Evidence | | <i>Internal auditor commentary</i> |
| Is there supporting paperwork for payments with appropriate authorisation? | Yes | <p>A selection of expenditure items were made and cross-checked against the cash book, invoices and bank statements. At each full council meeting a list of payments is presented to 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 supported by a straight forward and clear audit trail for each payment, including: noting in the Council's Internal Control Document that all payments are approved by the Council, with 2 members signing each cheque and the supporting invoice along with the regular financial reporting to Council. Samples checked confirmed that 2 members had signed the invoices; recording in the minutes the power under which expenditure is approved, is included in the Internal Control Document and the Council minuted the resolution to pay ICO by direct debit.</p> <p>Minutes of 14/1/21 note the Parish Council's continued contribution towards the village churchyard.</p> <p>Comment : Council may wish to note that the powers in the Local Government Act 1894 prohibit Council's involvement in property relating to the affairs of the Church e.g. maintenance or improvement of buildings or land or contributing to the costs.</p> |
| Where applicable, are internet banking transactions properly recorded and approved? | N/A | The Council does not use internet banking. |

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| Is VAT correctly identified, recorded and claimed within time limits? | Yes | Vat is correctly accounted for, identified in the cash book and the claim for the period under review in the sum of £79.94 is dated 1/11/2019 to 31/10/2020. |
| Has the Council adopted the General Power of Competence (GPOC) and is there evidence this is being applied correctly? ² | No | The council has not adopted 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 | No payments under S137 were made in this audit year. |
| Where applicable, are payments of interest and principal sums in respect of loans paid in accordance with agreements? | N/A | The Council has no Public Works Loans and as such incurred no interest payments for the period under review. |
| Additional comments: | | |

| Section 4 – Risk management | | |
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| 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 and reviewed for the period under review at the meeting of the council on 14/5/20 and covers in general terms the matters which could prevent a smaller relevant body from functioning. The Council has continued to ensure that effective and efficient financial administration is in place. A wide range of formal policies, procedures and protocols have been adopted by the Council and these provide a solid foundation for the continuing operation of strong financial management and control. |

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.

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| <i>Is there evidence that risks are being identified and managed?</i> | Yes | It is noted in the Council's Internal Control Document that risk assessments are reviewed annually and that regular maintenance is carried out on physical assets. The minutes of 9/7/2020 include risks relating to the maintenance and use of the defibrillator are being managed. The minutes of 12/11/20 included a review of the risk assessment for the cleaning operative. |
| <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 | General insurance from RSA for the period under review shows core cover, with both public and employers liability cover provided for £10 million. Fidelity Guarantee cover is £25,000 which given the current balances held by the Council is within the recommended guidelines. The council reviewed the adequacy of its insurance policy on 9/7/20 and this was included in the minutes. The annual review of risk and the adequacy of insurance cover is also noted in the Council's Internal Control Document. |
| <i>Evidence that internal controls are documented and regularly reviewed⁴</i> | Yes | The internal control document dated 31/3/2021 has been published on the website. The minutes note the review of the internal control arrangements on 14/1/2021. |
| <i>Evidence that a review of the effectiveness of internal audit has been carried out during the year⁵</i> | Yes | It is noted in the Council's Internal Control Document that the Council reviews the effectiveness of the system of internal control, including a review of the effectiveness of the internal audit. Comment: Council may wish to note this action in their minutes. |
| 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 | | |
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| Evidence | | Internal auditor commentary |
| <i>Verify that budget has been properly prepared and agreed</i> | Yes | The budget for 2020-2021 was agreed by full Council at the meeting on 14/11/2019 and noted in the minutes. The Council shows good practice in that recommended key stages of the budgetary process have been followed namely: <ul style="list-style-type: none"> • Decide the form and level of detail of the budget • Review the current year budget and spending • Assess levels of income • Bring together spending and income plans • Provide for contingencies and consider the needs of reserves • Approve the budget • Confirm the precept or rates and special levies and • Review progress against the budget regularly throughout the year Details of the budget are published on the website. |
| <i>Verify that the precept amount has been agreed in full Council and clearly minuted</i> | Yes | Following the agreement of the budget, the Council approved the precept for 2020-2021 of £5,150 and this was noted in the minutes of 14/11/19. |
| <i>Regular reporting of expenditure and variances from budget</i> | Yes | Regular budget monitoring statements provided to full Council, is recorded in the Internal Control Document and details included in the minutes of each meeting. The budget is regularly amended during the year. |

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| <i>Reserves held – general and earmarked⁶</i> | Yes | At year end 31/3/21 the Council holds reserves of: General £9,659 and Earmarked £1,400.00 Total Reserves £11,059 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. At the current level, council's general reserves are considered to be over this level. This was also raised in the internal audit report for 2019/20. Comment: Council may wish to review the high level of their general reserves and consider reallocating some to earmarked reserves. |
| <i>Additional comments:</i> | | |

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

| Section 6 – income controls | | |
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| 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 | A number of items of income 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 promptly banked. Income is recorded in the financial reports circulated to Councillors. It is also noted in the Council’s Internal Control Document that all income is reported to full Council. The precept of £5,150 agrees with Mid Suffolk District Council’s notification. Setting of the precept is included in the Council’s risk assessment documentation. The Council did not receive under funds under the Community Infrastructure Levy. |
| <i>Is income reported to full council?</i> | Yes | |
| <i>Does the precept recorded agree to the Council Tax Authority’s notification?</i> | Yes | |
| <i>If appropriate, are CIL reporting schedules in accordance with the Regulations?⁷</i> | N/A | |
| <i>Is CIL income reported to the council?</i> | N/A | |
| <i>Does unspent CIL income form part of earmarked reserves?</i> | N/A | |
| <i>Has an annual report been produced?</i> | N/A | |
| <i>Has it been published on the authority’s website?</i> | N/A | |
| Additional comments: | | |

⁷ Community Infrastructure Levy Regulations 2010

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| 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> | <i>No</i> | The Council does not use a system of petty cash. |
| <i>If appropriate, is there an adequate control system in place?</i> | <i>N/A</i> | |
| Additional comments: | | |

| Section 8 – Payroll controls | | |
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| 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> | Yes | The council has 2 employees during the period under review and P60s were seen. It is noted in the Internal Control Document that contracts are held for staff employed. Employment contracts were not reviewed during the internal audit, but evidence confirms all salary payments are authorised by full Council. In accordance with proper practices, the Council has ensured that the remuneration payable to all employees has been approved in advance by the Council The clerk's salary was agreed at the meeting of 26/10/2020 and noted in the minutes. |
| <i>Has the Council approved salary paid?</i> | Yes | |
| <i>Minimum wage paid?</i> | Yes | |
| <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 | SALC is contracted to operate the payroll function which is operated in accordance with HM Revenue and 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 for every employee. Deductions are paid to HM Revenue and Customs on or before the dates prescribed. |
| <i>Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?⁸</i> | Yes | It was noted in the internal audit report for 2019/20 that a declaration of compliance with regards to automatic enrolment duties was completed in January 2020. |

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

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| <i>Are there any other payments (eg: expenses) and are these reasonable and approved by the Council?</i> | Yes | Expenses allowances are reconciled and this is confirmed in the risk assessment documentation. Other payments are reasonable, supported by receipts and approved by Council. |
| Additional comments: | | |

| 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. | | |
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| 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 | Declared value of the asset register is £7,959.00 which agrees with box 9 Total Assets on the AGAR. The asset register lists items under insurance that fall within the Council's remit for maintenance and ownership. The register states value as at the date of acquisition and where assets have been gifted or have an unknown value been given an approximate value. It is noted in the Council's Internal Control Document that the Asset Register is updated annually. |
| <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> | N/A | |
| <i>Is the asset register up to date and reviewed annually?</i> | Yes | The asset register is up to date for the audit year 2020/21 and was reviewed at the meeting of 14/5/2020. Council shows good practice by noting details of their asset register in the minutes. |
| <i>Cross checking of insurance cover</i> | Yes | The adequacy of the insurance cover has been checked against the asset register by full Council. |

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

Additional comments:

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 |
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| <i>Is bank reconciliation regularly completed and reconciled with the cash book and cover every account?</i> | Yes | A number of samples were tested. There is evidence of good financial practice and the Council has implemented a system whereby bank reconciliation is correctly verified by the Council. This not only safeguards the Responsible Financial Officer but also fulfils an internal control objective. Regular bank reconciliations are included in the Internal Control Document The bank reconciliation forms part of the bi-monthly budgetary control. Regular bank reconciliations, independently reviewed is also included in the Internal Control Document. |
| <i>Do bank balances agree with bank statements?</i> | Yes | Bank balances agree with 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 : Barclays Business Premium Account: £4,110.77 Barclays Bank Community Account : £6,947.84 |
| <i>Is there regular reporting of bank balances at Council meetings?</i> | Yes | Bank balances are included in the bank reconciliations and budget/accounts review which are provided to Councillors at each meeting and included in the minutes. |

| Section 11 – year end procedures | | |
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| Evidence | | Internal auditor commentary |
| <i>Are appropriate accounting procedures used?</i> | Yes | The Council uses the receipts and payments accounting method. |
| <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 review. |
| <i>Has the appropriate end of year AGAR¹⁰ documents been completed?</i> | Yes | The Council is a smaller authority with gross income and expenditure not exceeding £25,000, it has completed Sections 1 and 2 of Part 2 of the AGAR and the Certificate of Exemption. |
| <i>Did the Council meet the exemption criteria and correctly declared itself exempt?</i> | Yes | 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 which was confirmed at a meeting of the Council on 14/5/2020. The Council has published the exemption certificate on their website. |
| <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 | The council provided for the exercise of public rights from 14/6/20 to 23/7/20. The Council noted these days in their minutes of 14/5/2020. |
| <i>Have the publication requirements been met in accordance with the Regulations?¹¹</i> | Yes | The Council has complied with the requirements of the Regulations for smaller authorities with income and expenditure not exceeding £25,000 and published the following on a public website: Section 1 – Annual Governance Statement of the AGAR Section 2 – Accounting Statements of the AGAR |

¹⁰ Annual Governance & Accountability Return (AGAR)

¹¹ Accounts and Audit Regulations 2015

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| | | Section 3 – The Exemption Certificate, Notice of the period for the exercise of public rights and other information required by Regulation 15 (2), Accounts and Audit Regulations 2015. |
| 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. | | |
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| Evidence | | <i>Internal auditor commentary</i> |
| <i>Has the previous internal audit report been considered by the Council?</i> | Yes | The council considered the report from the internal auditor and this was noted in their minutes of 10/9/2020. |
| <i>Has appropriate action been taken regarding the recommendations raised?</i> | Yes | It was noted in the minutes of 10/9/2020 that the Clerk will implement the auditor's comments. No recommendations were made. |
| <i>Has the Council confirmed the appointment of an internal auditor?</i> | Yes | The Council noted in their minutes of 14/5/2020 the appointment of SALC as the internal auditor. |
| Additional comments: | | |

| Section 13 – external audit for the period under review | | |
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| The internal auditor will revisit the external audit so that previous weaknesses and recommendations can be taken into account. | | |
| Evidence | | Internal auditor commentary |
| Has the previous external audit report been considered by the Council? ¹² | N/A | The Council correctly declared itself exempt from a Limited Assurance Review. |
| Has appropriate action been taken regarding the comments raised? | N/A | |
| 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 | | |
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| 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 | | Internal auditor commentary |
| Was the annual meeting held in accordance with legislation? ¹³ (note to auditor- emergency Regulations as a result of the COVID-19 pandemic) ¹⁴ | Yes | In accordance with legislation, the Council's Annual General Meeting was held on 14/5/2020 with the first item on the agenda being the election of the Chair. |
| Is there evidence that Minutes are administered in accordance with legislation? ¹⁵ | N/A | Minutes were not checked during this 'virtual audit'. Signed copies of the minutes being kept by the Clerk with numbered pages is included in the Internal Control Document. |
| Is there a list of members' interests held? | Yes | Members interests are updated and this is noted in the risk assessment documentation. |
| Does the Council have any Trustee responsibilities and if so are these clearly identified in a Trust Document? | No | The council does not have any trustee responsibilities. |
| Has the Transparency Code been correctly applied and information published in accordance with current legislation? | Yes | To ensure compliance with the requirements of the Transparency Code for smaller authorities (turnover not exceeding £25,000), Council has published on a public website: 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 |

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

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| | | 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. Compliance with the Local Transparency Code is noted in the Internal Control Document with items of expenditure being recorded in the minutes |
| <i>Has the Council registered with the Information Commissioner's Office (ICO)?¹⁶</i> | <i>Yes</i> | The Council has registered as a Data Controller with the Information Commissioners Office under reference Z2723865. |
| <i>Is the Council compliant with the General Data Protection Regulation requirements?</i> | <i>Partly met</i> | The Council have a selection of documents relating to the General Data Protection Regulation Requirements. Comment: To be fully compliant Council may wish to adopt and publish on their website policies relating to : Impact assessment, Privacy Notice and Data Retention. |
| <i>Has the Council published a website accessibility statement on their website in line with Regulations?¹⁷</i> | <i>Yes</i> | In line with The Public Sector Bodies (Website and Mobile Applications) Accessibility Regulations 2018 the Council have published their Website Accessibility Statement, having identified the areas which are not accessible. This statement was adopted at the meeting on 12/11/20 and noted in the minutes. |
| <i>Is there evidence that electronic files are backed up?</i> | <i>No</i> | There is no evidence in the risk assessment documentation that electronic files are backed up. |
| <i>Do terms of reference exist for all committees and is there evidence these are regularly reviewed?</i> | <i>N/A</i> | The Council does not have any committees. |
| Additional comments: | | |

Signed: *Linda Harley*

Date of Internal Audit Visit: N/A Date of Internal Audit Report: 30/6/21

On behalf of Suffolk Association of Local Councils

¹⁶ Data Protection Act 2018

¹⁷ Website Accessibility Regulations 2018