

Public Sector Audit

Goxhill Parish Council

Internal Audit Report for the year ended 31 March 2019

Public Sector Audit

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Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2019. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

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Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted:

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

Distribution List

Chairman of the Council

All members of the Council

Clerk to the Council

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The findings of the audit are summarised below

	Test	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p>Findings</p> <p>The cash book is maintained on spreadsheets on a receipts and payments basis and is arithmetically correct.</p> <p>It is, however, insufficiently analysed to provide all of the information required for the Annual Governance and Accountability Return. It is noted that the individual analysis columns for both receipts and payments have not been totalled monthly throughout the year or at the year-end. Such analysis is required for budget monitoring and financial information purposes.</p> <p>It is further noted, in 3 below in this report, that office expenses are incorrectly analysed as staff costs in the cash book and subsequently incorrectly identified on the year-end Accounting Statement.</p> <p>Also, as in 3 below, a VAT column should be included in the payments spreadsheet; only expenditure, net of any VAT, should be analysed to the various expenditure headings.</p> <p>Currently, the cash book does not separately identify assets purchased during the year and, as a result, the purchase of three bins was not included on the Asset Register.</p> <p>A year-end bank reconciliation has been performed and monthly reconciliations are presented to each meeting of the council.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● All cash book analysis columns should be totalled for financial information and to provide an audit trail for budget monitoring purposes. ● A VAT column should be added to the cash book. Owing to the council being able to recover the VAT

		<p>element of its expenditure, only the net costs of purchases should be analysed to expenditure headings in order to provide for more accurate budget monitoring.</p> <ul style="list-style-type: none"> ● An asset column should also be added to the cash book to facilitate accurate completion of the Asset Register.
2	<p>Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?</p>	<p><u>Adherence to Financial Regulations and Standing Orders</u> Findings The council reviewed and approved its Standing Orders and Financial Regulations during the year at the meeting held on the 5th July 2018.</p>
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u> Findings I have tested a large sample of payments throughout the year for appropriateness of expenditure and agreement with the cash book. I have also checked to verify that all council payments have been submitted to council for formal review and approval.</p> <p>It is noted that the Clerk's expenses have been analysed to "Salary and Staff Costs" in the cash book and hence included in box 4, Staff Costs, on the Accounting Statement on the Annual Governance and Accountability Return. The Government requires that Staff Costs only include direct staffing costs, such as salary, PAYE, NI, pension, and travel costs such as mileage payments and bridge tolls. Sundry office expenses should be classified as General Administration in the cash book and included in box 6, All Other Payments, on the Accounting Statements.</p> <p>I have tested that all VAT has been correctly identified and included in the VAT reclaims submitted to HMRC. It is noted that the VAT element of expenditure is not recorded in the cash book for the identification of all VAT incurred by the council. It is accepted practice that a VAT column is included in the payments spreadsheet and the cost of all purchases or services then included in the analysis columns net of VAT. This provides a check that all VAT incurred by the council has been included on the HMRC reclaim. It also provides</p>

	<p>more meaningful information for budget monitoring purposes since the cost of goods and services to the council is the cost, net of VAT, not the gross cost.</p> <p>It is noted that the Clerk maintains a detailed record of quotations sought and received in compliance with the council's Financial Regulations and the provision of this record to audit was of considerable assistance in verifying compliance with the council's policy.</p> <p>I have reviewed all invoices for completeness, accuracy, correct year of account and classification/analysis in the cash book.</p> <p>A separate account has correctly been included in the cash book for s.137 (Local Government Act 1972) expenditure. The expenditure coded to this statutory power of £6,062.20 is in respect of two cheques that were drawn and subsequently returned uncashed. The powers granted to councils under the provisions of s.137 are identified in the text of the 1972 Local Government Act and do not include such "expenditure" even though the cheques were subsequently returned unpaid. The provisions of s.137 include, inter alia, the granting of donations to local organisations; such expenditure should, in the future be analysed to this power in the cash book. S.137 does not, however, enable the council to incur expenditure on "property relating to the affairs of the church or held for an ecclesiastical charity" which is prohibited expenditure under the Local Government Act 1894. It is noted, however, that the council paid grants to the Goxhill Methodist Church and All Saints Church during the year.</p> <p>I have checked whether the principal of the two signature rule has been complied with by two signatories initialling the cheque stubs. This has not been carried out.</p> <p>The issue of councils requiring a licence if they play recorded music in public has recently been raised. It is NALC's view that a council will be obliged to pay for a PPL PRS Music Licence if it plays recorded music in public.</p>
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Recommendations

- The council should only include direct staffing costs under Salary and Staff Costs in the cash book for inclusion in box 4 on the year-end Accounting Statement.
- The council should revise the format of the cash book to identify the VAT element of expenditure and only apportion the net amount to the analysis columns for budget monitoring purposes.
- The principle that at least two people must be involved with all payments, whether by cheque or electronic payment methods must be maintained and evidenced. Appropriate evidence, such as the initialling of all cheque stubs to confirm agreement with the cheque and documentation provided at the time of signing, should be provided as part of the council's financial control environment.
- Following the release of a briefing note (LO1-18) from NALC last year, the council needs to be aware that section 8 of the 1894 Local Government Act prohibits a Parish Council from incurring expenditure on "property relating to the affairs of the church or held for an ecclesiastical charity". It is NALC's view that this prohibition still applies and is not overridden by the general provisions of section 137 of the 1972 Local Government Act. Section 137 expressly provides that expenditure cannot be incurred for purposes which are subject to a statutory prohibition, restriction or limitation and cannot, therefore, be used for the maintenance or upkeep of property or land owned by the church.
- If the council plays recorded music in public it may wish to enquire whether a licence fee is payable to PPS PRS Ltd. Further information can be found at "www.gov.uk/licence-to-play-live-or-recorded-music"
- It should never be assumed that registration for VAT purposes means that *all* value added tax can be recovered. Owing to the complexity of VAT legislation, it is recommended that advice be sought from HMRC when any new projects are undertaken, significant capital expenditure is being considered or any new matters arise.

4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p><u>Assessment of significant risks</u></p> <p>Findings</p> <p>The council maintains detailed Risk Assessments covering the Memorial Hall (including a Fire Risk Assessment), Tennis Courts, Play Area and Playing Field, Allotments, Bowling Green, Parish Rooms, Cemetery, Financial Risks and a Health and Safety Policy.</p> <p>The Clerk has confirmed that NLC undertook a playground inspection during 2018/19 although there is no evidence of a payment for this service in the cash book.</p> <p>I have reviewed the council's insurance cover and the limits of indemnity are adequate. The policy, however, does not specify whether both employees and members are covered for Fidelity Guarantee.</p> <p>It is noted that the sum insured for buildings of £721,206, far exceeds the valuation of council owned buildings on the Asset register.</p> <p>As the Asset register does not record any values for the cemetery, playing field, play park or street furniture it is not possible to identify whether all council owned assets have sufficient insurance cover.</p> <p>I have reviewed the council's arrangements for the security of its electronic information and the Clerk has confirmed that computerised records are backed up on to cloud storage and a memory stick. The frequency of back up and the location of the memory stick are not known however.</p> <p>The Clerk has confirmed that the Council comply with the requirements of the General Data Protection Regulations and the Clerk and Personnel Committee are to receive training after the May election.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should ensure that its insurance policy does not include cover for Trust Assets as the Government does not permit the council to include any payments on behalf of the Trusts it administers to be included in the Parish Council's records and included on the Annual Accounting Statement.
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		<ul style="list-style-type: none"> ● The council should check with the insurers whether both employees and members of the Parish Council are covered for Fidelity Guarantee. Council members must also be covered under this section of the policy and written confirmation that they are included must be obtained. ● A review of the council's assets should be undertaken to establish insurance valuations and confirm that all assets are adequately insured. ● The council's electronic records should be password protected and backed up weekly onto an external media device. Such back-ups should be maintained remotely from the council's computer to provide security in the event of fire or theft.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings A detailed annual budget was prepared for the purpose of setting the 2018/19 precept.</p> <p>Detailed budget monitoring reports were presented to council quarterly for review and approval during the year. They do not, however, include a variance column which would be useful to highlight potential overspends and enable council members to make any decisions considered necessary.</p> <p>Year end balances at 31st March 2019 were £78,908. This comprises £17,036 relating to the Youth Fund and a general reserve of £61,872. The general reserve equates to approximately 107% of the Precept and Community Grant and is considered to be both adequate and prudent.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Budget monitoring reports should include a column which highlights variances from original budget. This would assist in clarifying the council's financial position as the year progresses and provide information for members on which to base decisions on future spending, if necessary. ● The council may wish to consider earmarking some of its general reserves for specific project(s) in the

		future, thereby reducing the general reserve to less than the Annual Precept.
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u> Findings Apart from the annual Precept and Community Grant from NLC, the council received income from the cemetery, allotments, VAT refunds from HMRC, premises hire from NLC, an insurance claim, miscellaneous grants and a small amount of bank interest.</p> <p>Owing to the lack of documentary evidence provided to the Clerk upon her appointment, the analysis of income in the cash book could not be completed.</p> <p>A remittance advice was noted on file from NLC, reference WIBGrant 2018, for a cheque for £600. This possibly relates to a Winter in Bloom grant that the council granted in 2018/19. The Clerk has confirmed that she remembers the cheque but the income, however, does not appear in either the cash book or the bank.</p> <p>The council has reviewed its charges and approved a revised Scale of Charges covering the Parish Rooms, Allotments, Memorial Hall hire, Tennis Courts, Bowls Club and Bowling Green and Cemetery fees. All fees and charges were approved by council on the 7th March 2019.</p> <p>The income received for the cemetery could not be agreed owing to the lack of detailed documentary evidence in support of the sums banked.</p> <p>The tenancy register for allotments totals £525 for the November income collections. The cash book, however, only records £450 received. It is possible that some allotment income has been banked with other income and has not been accurately identified and accounted for.</p> <p>During discussions with other Town and Parish Councils during the year it has become apparent that the Clerks of some councils have received different and sometimes conflicting advice from consultants in respect of charging VAT on some council services.</p>

		<p>Recommendations</p> <ul style="list-style-type: none"> ● Documentary evidence should be obtained and retained for all council income and should be analysed in the cash book. ● The council should contact NLC to arrange for a replacement cheque in respect the WIB Grant. ● The cash book should separately analyse all council income including the Precept, Council Tax Grant (as this is identified separately from the Precept on the Accounting Statement) and Allotment income. Allotment income should be separately identified and accounted for to provide for accurate accounting and audit verification. An improved audit trail from the council's duplicate receipt books to paying in slips, or the recording of the dates of banking on the allotment record, would facilitate this. ● Full documentation and the Burials Register should be provided to audit for the review and verification of cemetery income. ● VAT is extremely complex and if the council is in any doubt about the correct VAT treatment in respect of providing goods or services to the public, detailed advice and guidance on the council's specific situation should be sought from HMRC.
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>The council does not maintain a petty cash system. All petty expenditure is reimbursed to the Clerk and members of the council via the payments system.</p> <p>For the sample checked the VAT element of all petty disbursements has been identified and included on the VAT reclaims.</p> <p>Petty cash payments are included in the schedule reported to each council meeting.</p>

8	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>The council's only employee is the Clerk and the Contract of Employment, dated the 1st November 2018, contains clear terms and conditions of employment.</p> <p>I have agreed the gross payments for each month to contracted hours and authorised overtime. The original calculation sheets submitted to audit provided insufficient detail to enable verification of each month's gross pay. Subsequent information supplied provided the detail required to enable audit verification.</p> <p>It is noted that overtime worked by the Clerk is authorised by the Personnel Committee.</p> <p>The Clerk is subject to PAYE and NI regulations and all statutory deductions have been correctly paid to HMRC.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Detailed calculation sheets should be maintained for each variation of gross pay and provided to audit for verification purposes. ● The council should be aware that the Pensions Regulator has advised of statutory minimum pension contributions which came into effect on the 6th April 2019. The minimum employer contribution of 3% of salary and minimum employee contribution of 5% of salary apply if the council employ staff in an automatic enrolment pension scheme.
9	<p>Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?</p>	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The council's Asset Register is in the form of a schedule which identifies the council's assets as at February 2019. It is noted, however, that the register has not been maintained in the recommended format. As reported last year, the recommended format is contained in the 2014 NALC/SLCC Governance and Accountability Guide for Local Councils.</p>

	<p>It is noted that the total of assets shown on the register is £312,000. This valuation, which is the current insurance valuation, is not, however, on the correct basis for Parish Councils. The recommended basis for asset valuation is contained in the current, March 2019, NALC/SLCC Governance and Accountability Guide. Also the nominal values of £1 for both Hallands Wood and the Parish Triangle have not been included in the total valuation.</p> <p>It is further noted that the assets purchased during the year, that have been added to the Asset Register, have not been included in the total asset valuation for year-end purposes and the completion of the Annual Governance and Accountability Return (AGAR). The council also purchased three bins during March 2019 that had not been added to the register.</p> <p>The second page of the register identifies the contents of the Parish Room and assets located at the cemetery, playing field, play park, street furniture and office equipment. Of these assets only a computer, printer and a notice board have valuations attributed to them.</p> <p>The assets that have been purchased during the year, except for the bins purchased in March, have been added to the register at the cost inclusive of VAT. As the council is able to recover the VAT element of such purchases the register should reflect the actual cost to the council net of VAT.</p> <p>The Asset Register also identifies assets owned by the Trust which the council administers. The council's and Trust's assets, however, should not be shown on the same Asset Register.</p> <p>The Clerk has confirmed that the Asset Register was reviewed and approved at the council meeting held in April 2019.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The Asset Register should be compiled and maintained in the recommended format. ● The valuation of assets should be in accordance with recommended practice. The Asset Register should
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		<p>also include all assets shown on the register and any new purchases should be added net of VAT.</p> <ul style="list-style-type: none"> ● All council owned assets should have a valuation attributed to them on the Asset Register which should be included in the total valuation for year-end purposes and the completion of the AGAR. The methodology for applying the appropriate values is contained in the latest Governance and Accountability Guide. ● The total valuation of assets declared on the Asset Register should reflect all purchases, and any disposals, during the year. ● The Asset Register should be dated the 31st March each year as required by the guidance on the Accounting Statement in the AGAR. ● The assets owned by the Trust should not be included on the Council's Asset Register. A separate register should be maintained independently by the Trust for submission to and approval of the trustees.
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings Year-end and monthly bank reconciliations have been prepared by the Clerk and presented to each council meeting. They do not include any unusual or balancing entries.</p> <p>All reconciliations have been signed as seen and approved by the Chairman of the council.</p>
11	<p>Were year-end accounts prepared on the correct accounting basis and supported by adequate working papers and adjustments, transfers,</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p>Findings The year-end statement has been prepared on the correct accounting basis (Receipts and Payments) and, therefore, debtors and creditors have not been included.</p>

<p>contra entries etc. which are fully explained and justified?</p> <p>Is there an adequate audit trail from underlying records and where appropriate have debtors and creditors have been properly accounted for?</p> <p>Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p>The figure included in box 2, Precept, is the Precept the council received in 2017/18 and not 2018/19. The figure for this year's Accounting Statement on the AGAR should be the 2018/19 Precept of £54,500, net of the Council Tax Grant.</p> <p>The figure in box 3, Total Other Receipts, should be the balance of all income received by the council, less the Precept.</p> <p>As noted in 1 above in this report, the Clerk's expenses have been included in box 4, Staff Costs. Such costs should be included in box 6, all other payments, in accordance with the latest Governance and Accountability Guide and the guidance notes to the Accounting Statements.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Box 2, Precept, should be amended to reflect the 2018/19 Precept received by the council. ● Box 3, Total Other Income, should be amended to reflect the total income received by the council less the Precept. ● Box 4, staff costs, should be amended to include only gross pay, PAYE, NI, pension costs and mileage and travel costs for the Clerk. ● Box 6, all other payments, should be increased to reflect the reduced staff costs figure in box 4. ● Box 9, Total Fixed Assets, should be amended to agree to the revised total on the Asset Register, when the necessary adjustments have been made in accordance with the recommendations in 9 above in the report. ● The Variance Analysis will need to be amended prior to submission to the External Auditor to take account of the above adjustments.
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12	Has the council met its responsibilities as a Trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings</p> <p>I have previously reviewed the Trust Deeds for the Memorial Hall and Millennium Green.</p> <p>The Council is the sole Trustee for both the "Goxhill Memorial Hall and Recreation Ground" and the "Goxhill Millennium Green." The Charity Commission's website confirms that Goxhill Memorial Hall was entered on the Register of charities on the 23rd March 1964 and the registered charity number is 51928. It also confirms that Goxhill Millennium Green Trust was registered on the 9th August 1999 and its registered charity number is 1077394.</p> <p>The Trust Deed's principal covenants are:</p> <p><u>Goxhill Memorial Hall</u></p> <p>The provision and maintenance of the Village Hall and Recreation Ground for use by the inhabitants of Goxhill for meetings, lectures, classes and other forms of recreation and leisure time occupation with the intention of improving the conditions of life for the said inhabitants.</p> <p>Classification:</p> <p>What: Education/Training. Arts/Culture/Heritage/Science. Amateur Sport.</p> <p>Who: Children/Young People. Elderly/Old People. People with Disabilities. Other Charities or Voluntary Bodies. Other Defined Groups. The General Public/Mankind.</p> <p>How: Provides Buildings/Facilities/Open Spaces.</p> <p><u>Goxhill Millennium Green</u></p> <p>The provision of an open space for the benefit of the inhabitants and to be used forever as an area for informal recreation, play or other leisure-time occupations, a meeting area or place of community events and for any other lawful purpose consistent with these Trusts and for the general benefit of the community.</p>
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		<p>Classification: What: General Charitable Purposes. Environment/Conservation/Heritage. Who: The general Public/Mankind. How: Provision of Buildings/Facilities/Open Spaces.</p> <p>I have reviewed the Parish Council's accounts and have seen no evidence, apart from the possibility that the insurance of the Village Hall has been included in the Parish Council's insurance policy, that Trust Fund expenditure has been included in the cash book or Annual Governance and Accountability Return.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As noted on 9 above, assets owned by the Trusts should be recorded on separate Asset Registers and not included on the Parish Council's register. ● The cost of the Village hall insurance should not be met by the Parish Council.
13	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<p><u>Exemption Certificate</u></p> <p>Findings The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
14	Are the council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p>Findings The council's minutes are in a loose leaf format and all minutes for the year were presented to audit.</p> <p>It was noted that the pages of the minutes of the meeting held on the 6th September 2018 have not been signed as a true record by the Chairman in accordance with the Local Government Act 1972 (Schedule 12.41(2)).</p>

		<p>Since the Clerk commenced her employment, the council's minutes have been consecutively numbered in accordance with legislative requirements.</p> <p>Recommendation</p> <ul style="list-style-type: none">● The minutes of the council meeting held on the 6th September should be signed as a correct record in accordance with the above legislation.
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Executive Summary

Significant progress, in raising the standards of financial control and governance towards those required of a public body, has been made by the Parish Council during the year.

The accounts and governance arrangements of the council have been maintained to a considerably higher standard than last year and the hard work is acknowledged of the Members of the Council and the new Clerk, during the year of audit.

The internal financial control environment within the council is significantly improved and the adoption of the above recommendations and consideration of the advisory notes will build on what has already been achieved and will further enhance and strengthen the systems, procedures and governance arrangements already in place.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2018.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

Public Sector Audit

4th May 2019

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