

Internal Audit Report for Hitcham Parish Council for the year end 31 March 2021

Clerk	Doreen Neun
RFO (if different)	
Chairperson	Allan Scott
Precept	£7,500
Income	£8,770.98
Expenditure	£12,033.54
General reserves	£7,340.12
Earmarked reserves	£2,838.63 (Play area £691.73 + CIL £2146.90)
Audit type	Annual
Auditor name	Sandra Brown

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 a computerised spreadsheet 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	This provides good evidence to support the Council’s underlying statements.
<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	<i>At the meeting on 11 January 2021 the Council carried out an annual review of its Standing Orders. Use of the Model Standing Orders (produced by NALC in 2018). Comment: At the next annual review Council may wish to update the threshold values within section 18 Financial controls and procurement items f & g.</i>
Are Financial Regulations up to date and reviewed annually?	Yes	<i>At the meeting on 11 January 2021 the Council carried out an annual review of its Financial Regulations. Use of the Model Financial Regulations (produced by NALC in 2019). Comment: At the next annual review Council may wish to update the threshold values within the footnotes on page 16.</i>
Has the Council properly tailored the Financial Regulations?	Yes	<i>Financial Regulations have been tailored to Council. Comment: At the next annual review Council may wish to remove the [] within the Financial regulations to remove any ambiguity.</i>
Has the Council appointed a Responsible Financial Officer (RFO)? ¹	Yes	<i>In accordance with legislation Council has appointed the Clerk as the Responsible Financial Officer at its meeting on 14 September 2020.</i>
Additional comments:		

¹ Section 151 Local Government Act 1972 (d)

Section 3 – Payment controls		
<p>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.</p>		
Evidence		<i>Internal auditor commentary</i>
Is there supporting paperwork for payments with appropriate authorisation?	Yes	<i>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.</i>
Where applicable, are internet banking transactions properly recorded and approved?	N/A	<i>Internet banking not carried out.</i>
Is VAT correctly identified, recorded and claimed within time limits?	No	<i>VAT not identified within the cash book and no reclaim of VAT had been received within the year under review. Recommend: A separate column is contained within the cash book identifying VAT and a reclaim is made for any VAT paid.</i>
Has the Council adopted the General Power of Competence (GPOC) and is there evidence this is being applied correctly? ²	N/A	<i>Council has not adopted the General Power of Competence.</i>

² Localism Act

<p>Are payments under s.137³ separately recorded, minuted and is there evidence of direct benefit to electorate?</p>	<p>Yes</p>	<p><i>Payments for the year under review total £2,500. Section 137 enables 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 £8.32 per elector) on purposes for the direct benefit of its area, or part of its area, or all or some of its inhabitants. However, the payment to the Church of £1,500 towards grounds maintenance was an incorrect use of this power.</i></p> <p><i>Comment: The payment of £1,500 made to the Church towards grounds maintenance, NALC advises the 1894 Local Government Act restricts Council's from spending on work related to affairs of the church which includes grass cutting however the Internal Auditor would highlight there is ambiguity still over this issue with some Councils using the power: LGA 1972 s.214 to make this payment – and it will be down to Council to decide whether it should proceed knowing it could be open to a legal challenge.</i></p> <p>Recommend: Council seek advice from SALC if unsure of the correct use of powers for expenditure.</p>
<p>Where applicable, are payments of interest and principal sums in respect of loans paid in accordance with agreements?</p>	<p>N/A</p>	
<p>Additional comments:</p>		

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.

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.

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 11 January 2021 and covers in general terms the matters which could prevent a smaller relevant body from functioning.
<i>Is there evidence that risks are being identified and managed?</i>	Yes	The risk management plan covers financial and property risks including the maintenance of play equipment. It was evidenced the Council ensured an independent inspection of the play equipment was carried out by Babergh District Council with a minute reference made at a meeting of Council on 9 November 2020.
<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	<i>General Insurance from RSA Parish Protect through CAS for the period under review shows core cover: Fidelity Guarantee cover is £25,000 which given the current balances held by the Council is within the recommended guidelines of year end balances plus first instalment on precept received. Public Liability £10 million Employers Liability £10 million The Councils insurance cover was renewed at their meeting on 14 September 2020 and there is a minute to show the cover was reviewed.</i>
<i>Evidence that internal controls are documented and regularly reviewed⁴</i>	Partly Met	<i>An Internal Control Report has been completed for the year under review and uploaded onto the Council's website however the Internal Auditor was unable to find a minute reference that the internal control report had been reviewed by Council. Recommend: Council ensures a minute reference is made that Council has reviewed its internal controls.</i>

⁴ Accounts and Audit Regulations

<i>Evidence that a review of the effectiveness of internal audit has been carried out during the year⁵</i>	<i>Partly Met</i>	<i>The effectiveness of internal audit was contained within the internal control report, seen on the council's website, see above.</i> <i>Recommend: A minute reference is made that a review of the effectiveness of internal audit has been carried out.</i>
<i>Additional comments:</i>		

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	<p>The budget for the year 2020-21 was discussed and approved by Council at a meeting on 30 January 2020. However, it was noted by the Internal Auditor the minutes state the budget was agreed after the precept was agreed for 2020-21.</p> <p>Recommend: The Council follows good practice in that the recommended stages of the budgetary process are followed namely:</p> <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 • Review progress against the budget regularly throughout the year.
<i>Verify that the precept amount has been agreed in full Council and clearly minuted</i>	Yes	The precept was set at £7,500 and formally approved at a meeting of 30 January 2020 with the amount clearly shown in the minutes.
<i>Regular reporting of expenditure and variances from budget</i>	Yes	A financial report is produced for each meeting which includes budget comparisons.

<i>Reserves held – general and earmarked⁶</i>	Yes	The Council's final accounts show general reserves in the sum of £7,340.12 with earmarked reserves in the sum of £2,838.63 (£691.73 Play Area + £2146.90 CIL) with overall reserves standing at £10,178.75
<p><i>Additional comments:</i> <i>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 and twelve months, net revenue expenditure. At the current level, Councils general reserves are considered to be within this level.</i></p> <p><i>Reserves: 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 Reserves Policy and have reviewed the level and purpose of earmarked reserves.</i></p>		

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	
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 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 received.
<i>Is income reported to full council?</i>	Yes Income is reported to Council in accordance with the Council's Standing Orders.
<i>Does the precept recorded agree to the Council Tax Authority's notification?</i>	Yes The Council received precept of £7,500 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 received for the year under review show receipts of £1270.98 as reported to Council. In accordance with the Regulations the Council have received a proportion of CIL funds and ensured that retained balances are transferred to the earmarked reserves specifically allocated. The Council has complied with its duty to produce an annual report that details the amount of CIL funds received and spent for the year 2019-20. The Council has demonstrated it understands the requirements to comply with its duty to produce an annual report that details the amount of CIL fund received and spent. However, the internal auditor did not evidence the report for the year ending 2020-21 showing income received and retained balances.
<i>Is CIL income reported to the council?</i>	Yes
<i>Does unspent CIL income form part of earmarked reserves?</i>	Yes
<i>Has an annual report been produced?</i>	
<i>Has it been published on the authority's website?</i>	
<i>Comment: Council ensures the annual CIL report for the year 2020-21 is uploaded onto its website by 31 December 2021.</i>	
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	Petty cash not in operation.
<i>If appropriate, is there an adequate control system in place?</i>		
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>		The Council has one employee during the period under review.
<i>Has the Council approved salary paid?</i>		Employment contracts were not reviewed during the internal audit, but evidence confirms all salary payments are authorised by Council. In accordance with proper practice the Council has ensured that the remuneration payable to the employee has been approved in advance by the Council.
<i>Minimum wage paid?</i>		
<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 and Customs guidelines. There are suitable payroll arrangements in place which ensures the accuracy and legitimacy of payments of salaries 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 are calculated and recorded for the 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	At a Council meeting of 14 September 2020, it was confirmed a pension re-declaration had been made to The Pension Regulator on 25 August 2019. No pension provision was required by the current member of staff.
<i>Are there any other payments (eg: expenses) and are these reasonable and approved by the Council?</i>	Yes	<i>All expenses payments are approved by Council.</i>

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

Additional comments: 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.

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	Declared value is £54,226.49 for the period under review, which shows no change from the previous year.
<i>Are the value of the assets included? (note value for insurance purposes may differ)</i>	Yes	The asset register lists items under insurance that fall within the Council's remit for maintenance and ownership. The register states the insurance value of items.
<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 was reviewed by the Council at its meeting on 14 September 2020
<i>Cross checking of insurance cover</i>	Yes	Insurance cover of £50,000 and is in accordance with the Policy held. 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. Council reviewed the adequacy of its insurance cover at its meeting on 14 September 2020.

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

	<i>Comment: Council may wish to increase their insurance cover in line with the asset register which states assets in the value of £54,226</i>
<i>Additional comments:</i>	

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	There is evidence of good financial practice, a financial report is presented to Council at each meeting which includes bank reconciliation. This not only safeguards the Responsible Financial Officer but also fulfils an internal control objective.
<i>Do bank balances agree with bank statements?</i>	Yes	<i>Bank balances agree with period end statements and, as at year end (31 March 2021) for the period under review the balance across the Council's accounts stood at £9,935.42</i> <i>TSB Parish Council Account £9487.02</i> <i>TSB Play Area Account £691.73</i> <i>Total £10,178.75</i> <i>O/S cheques (000396 + 000152) £100 + £143.33</i> <i>Total £9,935.42</i>
<i>Is there regular reporting of bank balances at Council meetings?</i>	Yes	Financial reports are submitted to the Council at each meeting which include the bank balances of Council. The Council is aware that in accordance with proper practices, the bank reconciliation is a key tool for management as its 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 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 audit 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 and a Certificate of Exemption.
<i>Did the Council meet the exemption criteria and correctly declared itself exempt?</i>	Yes	Exemption: 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 6 May 2021.
<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	Public Inspection: The Internal Auditor was able to find details of the arrangements for the exercise of public rights for the period under review on the public website used by the Council. The Internal Auditor noted the dates for the exercise of public rights for year ending 31 March 2020 had been stated in the minutes of a meeting of Council on 13 July 2020.
<i>Have the publication requirements been met in accordance with the Regulations?¹¹</i>	Yes	Accounts and Audit Regulations: 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

	Certificate of Exemption Notice of the period for the exercise of public rights and other information required by Regulation 15 (2), Accounts and Audit Regulations 2015.
<i>Additional comments:</i>	

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 Auditor’s Report for the year ending 31 March 2020 has been considered and reviewed by the Council at their meeting on 14 September 2020.
<i>Has appropriate action been taken regarding the recommendations raised?</i>	Yes	The following recommendations were considered and agreed by the Council: Powers – Partly Met (S.137 payments highlighted) Insurance Review minute reference – Actioned Effectiveness of Audit – Partly Met (Included within Internal Control Report available on Council’s website but no minute reference) Exercise of Public Rights on website – Actioned Publication Requirements - Actioned
<i>Has the Council confirmed the appointment of an internal auditor?</i>	Yes	SALC was appointed to act as the Council’s internal auditor at a meeting of the Council on 8 March 2021 for the period under review.
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>	N/A	
<i>Has appropriate action been taken regarding the comments raised?</i>		
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>(emergency Regulations as a result of the COVID-19 pandemic)</i> ^{f14}		For the period in question, as a result of the COVID-19 pandemic the Council chose not to hold as Annual Meeting of the Parish Council.
<i>Is there evidence that Minutes are administered in accordance with legislation?</i> ¹⁵		Not seen – as virtual audit.
<i>Is there a list of members' interests held?</i>	Yes	A list of members interests are held on the website of BaberghMid Suffolk District Council.
<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>	Yes	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 for the year 2020/21 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

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

		And the 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.
<i>Has the Council registered with the Information Commissioner's Office (ICO)?¹⁶</i>	Yes	The Council is correctly registered with the ICO as a data controller in accordance with legislation (ZA127202)
<i>Is the Council compliant with the General Data Protection Regulation requirements?</i>	Partly Met	The Council has taken steps to ensure compliancy, however such documentation is limited to a privacy notice on the Council's website. Recommend: Council put in place the following documents to be compliant with the GDPR requirements: <ul style="list-style-type: none"> • Procedures for dealing with subject access and freedom of information requests • Procedures for dealing with data breaches • Data retention polices including disposal Template documents are available from the SALC website members area.
<i>Has the Council published a website accessibility statement on their website in line with Regulations?¹⁷</i>	No	Website Accessibility Regulations 2018 require a statement to be published on the Council's website. The Internal Auditor noted Council had considered website accessibility at a Council meeting of 13 July 2020. Recommend: Council publish on its website a website accessibility statement. A template can be accessed on the SALC website members area.
<i>Is there evidence that electronic files are backed up?</i>		The Internal Auditor assumes all electronic files are backed up regularly.
<i>Do terms of reference exist for all committees and is there evidence these are regularly reviewed?</i>	N/A	
Additional comments:		

Signed: *S.J. Brown*

Date of Internal Audit Report: 30th June 2021

¹⁶ Data Protection Act 2018

¹⁷ Website Accessibility Regulations 2018

SALC Internal Audit Report template (v.2)
Last reviewed: 12th April 2021

On behalf of Suffolk Association of Local Councils